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Master's thesis

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Models of Microfinance

Palm nuts are used for palm oil, which is a key component in Beninese cooking and a common product for microfinance clients in Benin.

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Abstract

Microfinance is the provision of financial services like loans, savings and insurance to poor people, primarily in developing countries. The starting point for the thesis is "the microfinance promise" (Morduch, 1999): The idea that microfinance can be financially sustainable and contribute to poverty reduction at the same time.

The assumption is that different types of institutions have different potentials to fulfill the promise. *Models of Microfinance* suggests that a key to the social and financial performance of microfinance institutions is the extent to which they are public or private. An institution is public if it is subject to what I call political authority, and this determines its *degree of publicness*. By coupling public administration theory with research on microfinance, I identify three core models, and use them as the analytical basis for two empirical analyses. The models are: Commercial microfinance institution, non-profit microfinance institution and member based microfinance institution.

These three models are analyzed quantitatively with data from 301 institutions worldwide, and qualitatively in three comparative case studies from Benin. The microfinance promise is operationalized by looking at the financial and social performance of the institutions. The quantitative analysis shows that the models differ on their social performance: The more public institutions are better at reaching the poor than their commercial counterparts. On the other hand, variation of financial performance is insignificant across institutions. Unexpectedly, the commercial model does not have financial advantages, on the average.

The qualitative analysis outlines a number of mechanisms driving this difference: The commercial institution faces constraints in the legal framework and has problems with raising capital for initial investments. The member based institution has a strong social focus, most likely because its members are both owners and clients, but its governance is ineffective because of the involvement of members. The non-profit institution successfully manages to overcome the possible downsides of publicness, but enjoys advantages like donor capital and technical assistance. These results complement the conclusions from the quantitative analysis.

The overall conclusion is that publicness matters greatly to implementation of microfinance. Institutions should think about how to balance and manage the complexities of publicness through ownership, investment, and their legal environment. Donors can assist here, by standardizing reporting criteria and supporting microfinance institutions when dealing with governments.

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Total number of words, excluding front page, table of contents, footnotes, literature list, and appendices: 34,798.

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Chapter 1. Introduction

According to a World Bank estimate, 1.1 billion people live in absolute poverty (Ravallion and Chen 2004). Reducing this number is a top priority of many international institutions, donors and developing world governments. Needless to say, the task is daunting and failures are plenty. In Africa, there are 150 million more poor people today than there were 20 years ago.

The provision of financial services like credits, savings and insurance to poor people - or what is called microfinance - has recently generated a lot of attention as a means to combat global poverty, and has achieved widespread support from the donor community. During the last 30 years new methods for delivery of financial services have been developed and today more than 100 million poor people participate in a microfinance program (Daley-Harris 2006: 21). The attention culminated in 2006 when the Nobel Peace Prize was given to the Bangladeshi economics professor Muhammed Yunnus and to Grameen Bank, a microfinance institution (MFI) with six million clients that he founded 30 years ago.

One reason for this attention, support and growth of microfinance is "the microfinance promise" (Morduch 1999): The apparent ability of microfinance to reduce poverty for the poorest of the poor (outreach), while at the same time reach financial sustainability and - eventually - gain independence of subsidies from governments and donors. This thesis looks at how the microfinance promise can be fulfilled: Which institutions can reach the poor and become sustainable and which cannot? If the microfinance promise shall have a change to become reality, it is necessary to generate valid knowledge on the mechanisms that drive performance in microfinance.

Whereas researchers have found some evidence of positive impact in terms of poverty reduction and reduction in economic vulnerability resulting from microfinance (Khandker 2005; Morris and Barnes 2005; Coleman 2006),[1] the debate on the trade-off between outreach and financial sustainability is much less settled. One side of the debate emphasizes that a strong focus on financial sustainability will require high interest rates, which the poorest clients are unable pay (Morduch 2000). The result can be that institutions move toward providing services to less poor clients, a process know as "mission drift" (Cull, Demirgüç-Kunt et al. 2006: 3). The other side claims that mission drift is not a problem: The poor can indeed pay the full costs of the services and commercialization is necessary in order to meet the vast global demand (CGAP and Rosenberg

[1] There has also been more profound critiques, noting that microfinance can lead to poverty instead of reducing it (Marr 2003) that it promotes neoliberal ideology (Rankin 2001) or that putting poor people debt has downsides which often go un-noted (Hulme 2000a).

2002).[2] Attempts to look at evidence have produced mixed results: There is no clear tendency for or against mission drift even in the best available data (Cull, Demirgüç-Kunt et al. 2006).

The role of outside actors like donors, international financial institutions and non-governmental organizations (NGOs) is at the center of this debate. Whereas some argue that donors and other external actors are needed if microfinance shall reach the poor, others find that the institutions are best off on their own. This thesis looks at this issue from the perspective of the microfinance institutions: How do institutions with and without involvement of these actors manage to achieve the dual goal of social performance and financial sustainability?

The starting point is the observation that there is a great variability across institutions in how much these external actors are involved: Some microfinance institutions are simply private commercial entities, whereas others are supported and influenced by governments, donors or NGOs. To conceptualize this, I use theory from public administration. Specifically, I propose a typology for microfinance, consisting of three models of microfinance, based on a public-private distinction: Microfinance institutions can be categorized according to how they are placed along a public-private continuum. Using Bozeman's concept of political authority (Bozeman 1987), I define an organization as public when it is subject to political authority as opposed to economic authority. Following earlier work on this subject, I call this the organization's *degree of publicness,*[3] and since both donors, NGOs and governments are subject to political authority they count as public in this context.

I argue that this difference in organizational publicness is key to understanding how the institutions live up to "the microfinance promise." Thus, the research question guiding the rest of the thesis is this:

> **How does organizational publicness matter to the performance of microfinance institutions with respect to the social goal of making microfinance work for the poor and to the financial goal of reaching sustainability?**

[2] One argument is that the alternative to microfinance institutions is money lenders, who often charge very high interest rates (CGAP and Rosenberg 2002: 10). In Benin, some money lenders charges 50% - per month.

[3] For example Bozeman and Coursey (1990), Bozeman and Bretschneider (1994), and Antonsen and Beck Jørgensen (1997).

The answer to this question is found by describing, explaining and understanding the relation between organizational publicness and performance. Three sub-questions may be formulated accordingly:

1) Description: Does organizational publicness matter to the performance of microfinance institutions?
2) Explanation: If yes, how does publicness affect the performance of microfinance institutions?
3) Understanding: What are the causal mechanisms driving the connection between publicness and performance?

Through a statistical analysis of quantitative data from 301 microfinance institutions and a comparative analysis of three case studies from Benin in West Africa, I find that organizational publicness indeed does matter to both financial and social performance. However, it does not matter in the way predicted by theory: Public is not necessarily inefficient. The probability of reaching both goals is greatest if the institutions have the right balance between public and private. Too much publicness will give institutions ineffective governance and make financing growth difficult. Too little publicness will limit the availability of economic and technical assistance from NGOs and donors, which is necessary at least in the beginning. A low degree of publicness also has a negative effect on social performance. Furthermore, the effect of publicness is dependent on the specific context, especially the legal framework surrounding the institution.

Using publicness as a basis for looking at microfinance complements the other ways microfinance has been studied. A common way of distinguishing different models of microfinance is by contract type and whether institutions lend to individuals, groups or villages.[4] I offer an alternative view of microfinance by combining theory from public administration with theory and data on microfinance. My hope is to contribute to the implementation of inclusive financial services and to show that theory on public administration and public organizations is relevant, also in microfinance.

[4] Individual and group loans are common throughout the world. Village banking in mostly found in connection to the organization FINCA.

1.1 Delimitation of the subject area

The focus in this thesis is on three different models of microfinance - three ideal types - and their relative performance in practice. I do not try to assess the general impact of microfinance institutions. Due to the problems of self-selection into microfinance programs as well as the complexity of intended outcomes, measuring general impact is both resource and time consuming and is out of reach here.

Moreover, I focus on different delivery vehicles for microfinance - what I call models of microfinance. I do not offer a general analysis of performance and thus I leave out some variables that are relevant to microfinance performance. Most notably, I do not deal with inter-country or inter-regional comparisons. Instead, I hold the country-specific variables constant in order to make it possible to better examine the inter-organizational differences.

Finally, I restrict myself to looking at social and financial performance in the microfinance institutions. From the perspective of public administration, measures for efficiency would also be relevant, and from the perspective of microfinance research, the default rate and more complex social performance measures may be used. Because of the available data, and in order to ensure the relevance for both public administration and microfinance, I focus on social and financial factors.

1.2 Defining central concepts

In this section I define the concepts central to my research question. I will go into detail with many of the concepts later, but it is necessary to establish a basic understanding to move forward. Throughout the thesis, *Chapter* is used for the primary divisions (1, 2, 3...) and *Section* is used for all others (1.4, 4.5.2, 7.2 etc.).

First of all, I define microfinance simply as the provision of credit, savings, insurance and other financial services to a poor target group. The poverty-level of the target group can be relatively defined. Even though microfinance includes services targeted toward the poor in the back streets of New York as much as in the countryside of Ethiopia, I will focus on the latter, that is, on microfinance in the developing world as defined by the UN (UN 2006b). The concept of microfinance is so central to the rest of the thesis that I will go into detail with its definition and history in the next chapter to provide some context for the rest of the thesis.

Second, "organizational publicness" describes the degree to which organizations are public.[5] I define this by using Bozeman's concepts of economic and political authority, which I define in detail in Chapter 4. An organization which is affected by political authority is more public than one affected by purely economic authority. I use publicness instead of just public/private because publicness is an ordinal measure - an organization can have a high or a low degree of publicness, and thus organizations can be ranked according to their publicness.[6] On the contrary, public and private are purely nominal measures - an organization is either public or private, not in between.

Third, "performance...with respect to making microfinance work for the poor and meeting financial goals" is defined as social and financial performance. Social performance refers to a microfinance institution's ability to reach and benefit the poor. Because of the difficulties in measuring this and because of the space and resource limitations of this project, I will later operationalize this by looking at the institution's output. The financial performance is the institution's ability to cover its own cost or, eventually, make profits. In line with the guidelines in the sector, I will use financial self-sufficiency as a measure of financial performance as explained in Section 5.2. This measures the institution's ability to cover its operational costs (CGAP 2003: 10).

The rest of the thesis proceeds as follows: After introducing microfinance in Chapter 2, I go through the methodology used to answer the research questions in Chapter 3. The theory on publicness is elaborated in Chapter 4 and a framework for assessing organizational publicness in microfinance is devised. The two first sub-questions from the research questions above are analyzed in Chapter 5, where I do a quantitative analysis of 301 microfinance institutions. The general conclusions from the chapter generate some questions, which are - together with the third sub-question - analyzed in the three case studies in Chapter 6. Conclusions and recommendations for future research and policy follow in Chapter 7.

[5] A public company is sometimes understood as a company that offers securities (bonds, stocks) for sale to the general public. However, in this thesis such a company is private because it is influenced by economic authority. These concepts will be further elaborated in Chapter 4.

[6] However, I will argue that publicness is not an interval measure, because it is impossible to develop a precise enough measurement tool.

Chapter 2. Introduction to microfinance

In this chapter, I start by defining what I mean by microfinance, or "the new microfinance" as I call it. Next, I discuss the schism between social and financial performance. Finally, I review the dominant school in the literature of microfinance performance, and I comment on how I differ from it. Thus this chapter provides a brief and selected literature review of the debates in microfinance that are relevant for the analysis that follows.

2.1 Defining microfinance

There has been little academic discussion as to the actual definition of microfinance. Most scholars seem to work with a minimum definition, where microfinance is simply financial services where the amounts used are lower than some, often implicit, limit (e.g. Robinson 2001a: 9; Armendariz de Aghion and Morduch 2005: 1). This definition is focused on the service, not on the recipients, but there are also some who find the poverty level of the participants to be essential (CGAP 2006a: 32). In both cases, though, the actual poverty level or amount which is counted as 'micro' is not specified. In the context of this thesis, microfinance is defined as *services that are targeted towards the poor in one way or another*. Thus, the important thing is the recipient, or the targeted recipients, who must be poorer than the average.

If this is microfinance, what then is a microfinance institution?[6] Ouattara simply defines this as any organization that engages in microfinance transactions, "regardless of their legal status" (Ouattara 2003: 2n1). Woller, on the other hand, restricts his definition to NGOs, leaving out commercial banks and credit unions (Woller 2002: 13). For my purpose, the former definition is too broad, whereas the latter is too narrow. The problem with the first definition is that it becomes very difficult to distinguish private lending among friends from institutionalized microfinance because of the large amount of small and informal organizations or clubs that are actually engaged in microfinancial transactions (Gueye 1996). For this reason, I limit myself to formally recognized entities. The second definition is problematic because of my aim, which is to compare different types of institutions. Leaving out both commercial and member based institutions (credit unions)

[6] Throughout the thesis, I use institution and organization interchangeably because the microfinance sector uses "microfinance institution" when talking about organizations that deliver microfinancial services. This could cause confusion because parts of sociological organization theory use "institution" when discussing the informal, normative aspects of organizations, whereas the "organization" refer to the structure (e.g. Meyer and Rowan 1977; Scott 2001; Dacin 2004: 47). When I use institution in this latter sense, I make sure to clarify this.

will make this impossible. Thus, in this analysis a microfinance institution is defined as any *formally recognized institution that provides financial services targeted toward the poor*.

In adopting this definition, it is important to specify the time frame, and to distinguish between what I will call the old and the new microfinance. Strictly speaking, the old microfinance goes back at least to the 15th century Europe, where the Catholic Church opened pawn shops as alternatives to expensive money lenders (CGAP 2006a: 3). They were also targeting the poor with financial services. Financial institutions targeting the relatively poor were also seen in Ireland, Germany and other European countries (Zeller 2001; CGAP 2006a: 2). Moving forward, poverty targeted microfinance has been used in developing countries at least since the 1930s, where governments and international institutions around the world began to sponsor Development Finance Institutions or Rural Development Institutions in an attempt to close the gap between demand and supply for farming credit in the lower end and rural side of the market in these countries (Hulme and Mosley 1996a: 2; Woller, Dunford et al. 1999). This was the primary rural financing until the 1970s, when the new microfinance started to appear (CGAP 2006a: 4).

There are several differences between the old institutions and the new microfinance: The old institutions were targeted towards farmers only, offered credit at highly subsidized interest rates and they often had strong ties to governments (Woller, Dunford et al. 1999: 7). Furthermore, there is widespread agreement that they did not perform very well, neither socially, in terms of reaching their target group, nor financially, in terms of recovering a reasonable part of their funds (Adams, Graham et al. 1984; Hulme and Mosley 1996a: 2; Zeller 2002: 4). Repayment rates were often as low as 50%. This led to low sustainability and in the end "donor money dried up, and the Rural Development Institutions almost universally failed" (Woller, Dunford et al. 1999: 7).

The institutions in the new microfinance, on the other hand, took off in the end of the 1970s and grew substantially the next 35 years. They are usually more independent from states than the previous ones, have a stronger, although varying, focus on financial sustainability, and they use a range of techniques for loan collection, which were not used by the first line of institutions, e.g. a high degree of monitoring of loans, organization of borrowers into groups, a focus on women and offering savings and insurance as a part of the portfolio. This has led to high repayment rates and high self-sustainability in many cases - something that clearly distinguishes them from the old microfinance (Morduch 1999: 1571).[7]

[7] Even though institutions in the new microfinance performed better than the old ones, there are still microfinance institutions with poor financial and social performance.

One of the reasons for analyzing the new microfinance is that it has expanded rapidly in the last 15 years. This expansion can be seen in Figure 1, which shows two different aspects of the spread: The spread of the idea, and the spread of the practice of microfinance. In line with Røvik (Røvik 1998: 59), article count or hits analysis is used to look at the spread of the idea of microfinance. The sources are four of the largest newspapers included in LexisNexis' database of Major World Publication - details about the selection and retrieval are explained in Appendix 1 .Abbreviations

Appendix 2. The total number of microfinance clients comes from the Microcredit Summit Campaign (Daley-Harris 2006: 21, Table 3). The graph shows a steep increase in the total number of clients as well as an increase in articles on microfinance.[8]

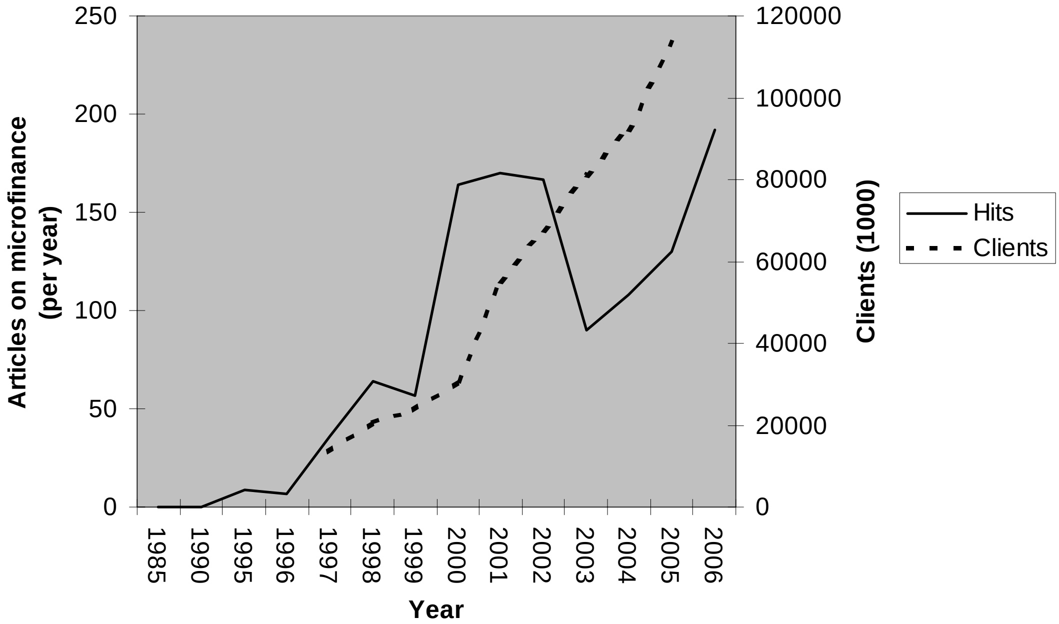

Figure 1. Spread and growth in the new microfinance

2.2 Social and financial performance in microfinance

The aim of this thesis is to generate knowledge about the determinants of social and financial performance in microfinance. In this section I explain the background for choosing these two types of performance as my dependent variables. Generally, the combination of these two goals is chosen

[8] It would be interesting to look at the decline in hits in 2002-2003, but this is outside the scope of this thesis. Moreover, the award of the Nobel Peace Prize to Muhammad Yunus spurred attention, which is included in the 2006 average shown on the graph. The articles per day until the prize announcement was 0.4. In the month after the announcement it was 0.9, but it fell relatively quickly, to 0.7 in the first months of 2007.

because it is at the core of a key characteristic of microfinance, which has been called "the microfinance promise" (Morduch 1999): The ability to deliver poverty reduction and institutional sustainability, defined as financial viability, at the same time.

The double bottom line of microfinance institutions is sometimes conceptualized as a win-win situation where both the financial institution and the poor clients benefit (Morduch 1999). For example, compared to simple grants or other welfare-like schemes, lending money is thought to be both generally more effective, in that it has an effect on the target group, and specifically more cost-effective, in terms of the cost per output compared to other interventions with the same results. It is thought to be more effective because borrowing provides incentives to develop businesses and more cost effective because the funds can be reused again and again. The evidence to support the win-win proposition is not only difficult to find - as I shall explain in section 5.1, impact measurement is extremely difficult - it is also outside the scope of this thesis. Some of the researchers who have tackled this broader aim are Morris (2005), who finds evidence that microfinance reduces financial sustainability; Khandker (2005), who finds that microfinance reduces poverty on an individual and village level; and Coleman (2006), who finds that only some participants benefit. None of them comment on the financial sustainability of programs. The reality probably is that some microfinance institutions contribute to poverty reduction, some return a profit and some do both. But instead of resting on the discussions on how to measure the one and the other, I wish to move deeper and look at what organizational background is needed to provide both financial sustainability and social outcomes in microfinance. Here I am interested in *how* different models of microfinance work, not *if* the concept of microfinance in general "works."

The dual focus on financial performance and poverty reduction is central to virtually all microfinance institutions. However, there are important differences and debates within the sector as to how to prioritize the one and the other. At an early stage in the spread and development of microfinance, a gap emerged between the institutions focusing strictly on their financial performance and those that were, and are, more concerned with social output. Already during the 1980s two of the early entrepreneurs in the business, The Grameen Bank of Bangladesh and ACCION in Latin America, took very different stands on this issue. The Grameen Bank focused on supporting its customers in any way it thought it could help them - for example, by providing education. In doing this Grameen Bank used a large amount of subsidies (Hulme and Mosley 1996b: 13). ACCION, on the other hand, focused solely on financial services and financial sustainability.

Whereas some label the one side the "financially minded" and the other "the socially minded" (Morduch 2000: 618), I prefer to use Woller's terms welfarists and institutionists, because both approaches work for a social goal - the difference is in their methods (Woller, Dunford et al. 1999). The welfarists are primarily concerned with the perspective of outreach and impact: That their clients are among the poorest and that they benefit socially from participating in the program. They tend to think that raising interest rates will make the loans too expensive to poorer clients. The institutionists, on the other hand, focus on setting interest rates high enough to cover all costs and create financial sustainability, without being too concerned about "who is reached" (Morduch 2000: 618). Institutionists are not too keen about subsidies focused on financial sustainability, whereas welfarists usually use subsidies.

It is important to note that the institutionists are very much concerned with the social output. What distinguishes them from the socially minded is not the end goal, but their belief in the best ways to reach this goal. The financially minded hold the view that the best, if not the only, way to serve the poor is through a strict focus on financial output: The microfinance institutions must be able to cover all of their own costs. As Marguerite S. Robinson, puts it: "[T]he debate is about the means, not the goals, [...] even successful institutions following the poverty lending approach, in aggregate, can meet only a small portion of the demand for microfinance" (Robinson 2001a: 23). Richard Rosenberg, an excellent representative of the institutionist approach, comments further on why microfinance institutions (MFIs) should care first and foremost about their financial sustainability:

> *"Some people treat this question as if it comes down to a value judgment: which do you care more about—poor people or profits (...or financial systems...or neoliberal ideology). To avoid any such confusion, let's assume that the only objective we care about is maximizing benefit to poor people. From this perspective, the argument for high interest rates is straightforward. In most countries, donor funding is a limited quantity that will never be capable of reaching more than a tiny fraction of those poor households who could benefit. We can hope to reach most of those households only if MFIs can mobilize relatively large amounts of commercial finance at market rates. They cannot do this unless they charge interest rates that cover the costs..."*
> *(CGAP and Rosenberg 2002: 11)*

This makes it clear that the goals are similar on the two sides of the spectrum - it is the means that differ. An important aspect of these means is the institutional setup: The proponents of the

institutionist approach argue that commercial institutions will be the best in reaching financial sustainability (Christen 2001: 2). Other types of institutions, like NGOs, member based institutions and the so-called non-bank financial institutions, are better off transforming into commercial institutions.[9] This proposition is at the core of this thesis, because transforming from one institutional setup to another will change the degree of publicness: Commercializing commonly means that institutions become owned by private investors, and as I shall explain below, this makes them less public.

It is because of this debate, and its importance for the future of inclusive finance, that I have chosen to look at social and financial performance in microfinance. It is not the goal here to judge which side of the spectrum is right or wrong. Instead I hope to contribute to clarifying concepts and highlighting some of the main mechanisms that drive the connection between organizations and their performance. In essence, the performance is my dependent variable. In the next section, I will introduce my independent variables - the different models of microfinance.

2.3 Model confusion

In this section I will go through some of the typologies or models that have been used to characterize the field of microfinance. I will argue that most of the prevailing typologies lack a clear specification of what is the underlying feature that varies across the different types of microfinancial institutions. An exception is the approach I will call the contractual rationalist approach, which is explicit about the use of variables. Thus I will go through this approach in a little more detail. Against this background I suggest publicness as an underlying variable for a typology of different models, or ideal types, of microfinance. Publicness, which will be further defined in Chapter 4, refers to the degree to which an institution is public.

A common way to label different models of microfinance is to refer to some of the most well-know microfinance programs and treat them as blueprints for a general model. Examples are the Grameen Bank-model or the FINCA-model that are used for replication (Wright 1999: 72). The implicit assumption is that there are some characteristics which define the these blueprints. However, there is little agreement on exact definitions and this often leads to misunderstandings in implementation - what exactly is "The Grameen Model" (Wright 1999). Another problem is that the institutions, which are the basis for the models, change. The Grameen Bank is not the same today as

[9] Here I define commercialization as formal institutional transformation like Christen (2001) not as a specific set of practices, like Woller (2002).

it was 10 years ago. Robinson, for example, cites Grameen Bank as the prime example of a model she calls "poverty lending," and mention the lack of savings as a defining characteristic of this approach (Robinson 2001a: 8). While it is true that the Grameen Bank has traditionally not emphasized savings, it has made savings account available to the public since 1980, and since revision of their product portfolio in 2001, savings have been a strategic and marketed product (Rutherford 2006: 12).

A second and broader approach to identifying models of microfinance is the one used by CGAP, which is a consortium of donors in microfinance based at the World Bank. CGAP identifies "alternative finance institutions" according to the criterion that they all "focus to some degree on extending financial services downwards" (CGAP 2004: 2). By doing this, CGAP finds 3000 institutions with a total of 750 million accounts, and institutions are divided into six categories: State-owned agricultural institution, development institutions and postal banks, member-owned savings and loan institutions, other savings banks, low-capital local and/or rural banks and specialized MFIs of varying types (CGAP 2004; CGAP 2006a: 36). The actual microfinance institutions are the last of these six types, and the other 5 types might serve "many clients who are not poor or near poor" (CGAP 2004: 1). Thus this typology is aimed at a wider financial landscape than what is the focus here.

Thirdly, Manfred Zeller has addressed the problem of models of microfinance in a paper titled '"Models of Rural Microfinance" (Zeller 2002). Zeller divides microfinance institutions into five types using a combination of contract type and legal status (Zeller 2002: 38).[10] In my opinion, this makes the categories unclear, as many MFIs can easily fall into more than one category. In an earlier paper, Zeller discussed contract type and legal status separately, and here it is clear that these two ways of categorizing are very different (Lapenu and Zeller 2001). The legal status is what comes closest to my typology, and I use something similar as a measure of publicness in my quantitative analysis, even though a difference is that Zeller does not explicitly use legal status as a proxy for publicness.

The final typology I will mention is perhaps the most common in microfinance research. This typology characterizes different models of microfinance by the lending contracts they use: How is the lending from the institution to the borrower organized? One example is Cull, Demirgüç-Kunt et al. (2006), who describe "the microfinance landscape" as comprised of three "institutional types": individual based lenders, solidarity group lenders and village banks (Cull, Demirgüç-Kunt et al.

[10] The five groups are Credit unions, Village banks, Microbanks, Solidarity group retail model og Linkage retail model

2006: 10). This categorization relies on the type of contract which is used between the MFI and the borrowers, and below I will label this approach the contractual rationalist approach. The contractual rationalists explain microfinance performance from the loan contract and the conditions described in it, which regulates the relationship between the client and the microfinance institution (Armendariz de Aghion and Morduch 2005: 257). The theoretical starting point is often the principal-agent theory focused on rational agents and formal relationships (Morduch 1999; Armendariz de Aghion and Morduch 2005: 262).[11] The general assumption in this body of research is that the reason for microfinance institutions' high repayment rates must be their ability to overcome some of the problems in reaching market clearance, for example information asymmetry as described by Stiglitz and Weiss (1981). This is analyzed through the construction of "repayment games" and conceptualizing the groups as "social collateral" and investigating their effect on adverse selection, moral hazard, auditing costs and enforcement problems (Besley and Coate 1995: 2; Ghatak and Guinnane 1999). Another aspect is the dynamic incentives, that is, the increase in loan size as an instrument for repayment (Tedeschi 2006).

An advantage of the contractual rationalist approach is that the background for the typology is clear. However, two problems remain: First, the contracts are implemented on an individual level. So characterizing the institutions according to the contracts they use does not take into account the fact that one institution might use several contract forms. For example, all of my three case institutions below used a combination of individual and solidarity group methodologies. Second, focusing on the contracts neglects the organizational setup around these contracts. These organizations can have many different governance structures and environments, which might impact the performance of the loans, disregarding the contract type. I will argue that the organizations should be used as a distinct unit of analysis.

Thus, whereas the issue of performance has certainly been studied in-depth before, there is a need for analyzing this with a broader perspective on organizations.[12] Specifically, focusing on the degree of publicness in the organizations and the way this affects performance is not found in previous research on microfinance. It is against this background that I choose this variable when outlining three models of microfinance in section 4.3 below. Before doing that, I will discuss my overall methodology in the next chapter.

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[11] The entire book uses this framework, instead of e.g. looking at concepts like norms, identity and endogenous preferences (e.g. March and Olsen 1989; Akerlof and Kranton 2000)

[12] Jain is an example of a similar approach (1996) He looks at how human resource management contributes to performance.

Chapter 3. Methodology and research strategy

In this chapter I explain the methodological choices I had to make to answer my research question. The first section explains why I will use a combination of quantitative and qualitative data, and the second section deals with how this is done in practice. In the third and last section, I explain how I selected the three cases in Benin, as well as how I collected the data from there.

3.1 Qualitative and quantitative data and methods

The goals of this thesis are to both *describe*, *explain* and *understand* the connection between publicness and performance in microfinance. In order to achieve this, I will use a combination of quantitative and qualitative data and analysis because this has some distinct advantages in answering my research question. Quantitative data is by some thought to be most appropriate for explaining and prediction, whereas qualitative is seen as most appropriate for understanding (e.g. found in Ravallion 2003). In the sections below, I will argue that quantitative analysis is superior in providing generalizable explanations, which makes it preferable in some instances, but that it must be supplemented with qualitative data analysis in order to convincingly understand causality. In addition, the contextual understanding, which can be reached using qualitative data, is superior to that of quantitative data. Thus, a combination of the two makes generalization and understanding possible (e.g. by Devine 2002: 202; Kanbur 2003). However, combination of quantitative and qualitative methods is no magic wand, and does not lead to fruitful results unless necessary precautions are taken (Devine 2002: 202).

In line with Kanbur (2003), I define the quantitative/qualitative divide simply with respect to the data: Quantitative data reports amounts and levels in numbers, whereas qualitative data reports meanings, narratives and discourses recorded as either text, image or sound.[13] However, there is more to it than that. The methods for analysis, which can be applied, also create a difference. The key advantage of quantitative data is that it is possible to analyze societal phenomena in a probabilistic manner, acknowledging that what seemingly looks like a causal relationship in one instance (or one case) can be merely random variation. It is not the data in itself that makes it possible to take account of this, but the comparability of quantities and the possibility of working with large and well structured data sets through statistical analysis of variance. This is in opposition

[13] Other definitions include quantitative/qualitative as different research designs (Bryman 2001: 21) or as different techniques for data collection (Devine 2002: 197) Whereas the former makes combination of the two difficult, the latter is subject to the criticism that qualitative methods can generate quantitative data (Chambers 2003)

to stand-alone case studies, where generalizability is drawn from a single case (e.g. Flyvbjerg 1992: 144; McKeown 1999: 173). The social world is probabilistic, and thus causality coming from one single case might just be a result of random factors.[14]

On the other hand, causality is not merely correlation. Researchers using statistical analysis sometimes claim to have developed techniques to overcome this problem, for example analysis of time-series data and the so-called two stages least square method, both of which can be used to estimate the causal direction (Gujarati 2003: 696, 753).[15] The crucial point is that this research often relies on a specific understanding of causality, the so-called Granger-causality, where one variable is said to cause another, if the two come in temporal sequence and knowledge of the former is helpful in predicting the occurrence of the latter (Zellner 1979; Gujarati 2003: 696; Bauwens, Boswijk et al. 2006). The problem is that this definition does not distinguish between causal relations and correlation caused e.g. by spurious relationships.[16] For this reason, I agree with Eckstein on the idea that quantitative data can be put to good use in plausibility probes - simply in support of an argument that something is plausible (Eckstein 1975: 109). When looking at causality, I will argue that case studies are superior - both when it comes to ensuring non-spurious relationships and for identifying the causal mechanisms in context. This is best proven by example: Many of the important contributions in political and social science indeed make use of case studies in looking at causality (Rogowski 1995). This is true for Lijphart’s study of the connection between cross-cutting cleavages and democracy in The Netherlands, and for Graham Allison’s refusal of the state as unified actor in his study of the Cuban missile crisis (Lijphart 1968; Allison 1971). These studies identify causalities that would not have been found with statistical methods (McKeown 1999: 172).

Finally, qualitative data analysis has a clear advantage in its ability to see the interplay of different causes and to generate knowledge on previously unknown causes. In this way, theory might be consulted afterwards because the "data suggests theories to investigate" (McKeown 1999: 176). The difference between quantitative and qualitative is summed up in Table 1.

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[14] One suggested approach to reaching generalizability in case studies is "thick description", where the point is that if a description is thorough enough, it makes it possible to compare with other settings, taking all differences into account (Flyvbjerg 1992: 84; Bryman 2001: 273). For the purpose here, this approach still does not makes it possible to distinguish between average cases and outlier cases.

[15] Other techniques (e.g. the ones mentioned in Bauwens, Boswijk et al. 2006) are much more advanced, but due to the limited space available, I will not get in to those here.

[16] This is acknowledge by some statisticians, e.g. Gujarati (2003: 23)

	Testing generalizable theories.	**Identifying causality and causal mechanisms.**	**Suggesting new variables, new understandings.**
Quantitative analysis	Good	Poor	Poor
Qualitative analysis	Poor	Good	Good

Table 1. Strength and weaknesses of qualitative and quantitative analysis

3.2 Combining qualitative and quantitative data in practice

Above I have argued for a combination of qualitative and quantitative data and analysis. But how should the two be combined? Following Lieberman (2005), I will do a "nested analysis" consisting of a quantitative large-N analysis followed by qualitative case studies. The analysis is nested because my three cases are also part of my dataset with 301 microfinance institutions. This constrains my case-selection, but makes it more likely that the cases are relevant to the data.

First, I deduct hypotheses from theory on organizations. This theory is tested on a large-N data set. From here, there are two possibilities, according to Lieberman: If my results are in accordance with the theory (a good fit), Lieberman suggests doing further model testing through case analysis. This combination of qualitative and quantitative in also know as *triangulation* (Hammersley in Bryman 2001: 447). If, on the other hand, my results does not fit the theory, qualitative analysis should contribute to model building, letting the two types *complement* each other (Hammersley in Bryman 2001: 447). In both cases I study the causal mechanisms that affect the dependent variable. The results in the quantitative analysis turn out to be somewhat counter intuitive and thus the qualitative analysis will be used for both model testing and building.[17]

To sum up, I test the quantitative results qualitatively, but I also use the qualitative case studies to provide understanding, and thus I combine the two in a third way, which Hammersley terms *facilitation*: The two types aid each other (Hammersley in Bryman 2001). The use of qualitative and quantitative analysis related to the three sub-questions is summed up in table Table 2.

[17] The terms 'model testing' and 'model building' indicate strong assumptions about predictability and nomological social science. These are relevant for describing and explaining, whereas they do not necessarily apply when I deal with understanding, because the goal is not the building of a model, but rather to provide contextual knowledge on the mechanisms that drive the connection between publicness and performance. This contextual knowledge will perhaps, but not necessarily, contribute to model building, and it is relevant and valid even though no model appears.

The case studies are carried out through structured, focused comparison (George 1979; George and Bennett 2005: 67). It is structured because I look at the same aspects of each case, making comparison possible. And it is focused because I deal only with aspects of the cases that are relevant to my research question: the connection between publicness and the performance of the institutions. This is what the cases are 'cases of' - other researchers might use the same cases for different purposes.

Sub-question	Role	Method	Function
Does organizational publicness matter to the performance of microfinance institutions?	Describe the connection	Quantitative and qualitative	Model testing
How does publicness affect the performance of microfinance institutions?	Explain the connection	Quantitative and qualitative	Model testing
What are the causal mechanisms driving the connection between publicness and performance?	Understand the connection	Qualitative	Contextual understanding, if possible model building

Table 2. Quantitative and qualitative methods facilitate each other in the analysis the three sub-questions

3.3 Case selection and data collection

In this section I will explain why and how I selected my three cases and my interview persons and also comment on some of the difficulties in undertaking qualitative research in Benin.[18]

Case selection has gained increased attention in recent debates on qualitative methods (Bennett and Elman 2006) and especially when working with more than one case it is important to clarify the choices made. Using three cases - instead of, for example, one - enables me to make comparisons, and because I have only one independent variable, I also avoid the "too few cases/too many variables problem" (Goggin 1986). The three cases are selected on the basis of what Flyvbjerg calls "information-oriented selection", or more specifically, maximum variation cases: They are chosen because they are different in terms of publicness, and thus I expect them to be

[18] This section deals with the qualitative data. The details regarding the data for the quantitative analysis are explained in the Chapter 5 (section 5.4).

suitable for generating knowledge on how this variable matters (Flyvbjerg 2001: 79). This principle - variation on the independent variable - is also recommended in the nested analysis explained above. The theoretical framework in Chapter 4 suggests three ideal types of microfinance institutions with regard to publicness: non-profit, commercial and member based institutions, respectively. Thus, I select one case in each category. Finally, the cases must be a part of my large-N dataset, which is also the case (Lieberman 2005: 444).

There are several such pairs of cases in the dataset. However, to maximize the value of variation on the independent variable, I have tried to hold as many other variables constant as possible. Specifically, I have chosen three cases in the same country, making the social, legal, economic and political environment the same for all institutions. If I had used cases from different countries differences on my dependent variable, in this case output, could simply be due to country-specific differences. Specifically, Benin has been experiencing an economic decline recently, largely because of a combination of a fall in the cotton prices and the government’s control of the sector. By selecting all my cases from the same country, I get a methodological advantage, and I also narrow down the possible cases substantially. The final choice of Benin was made because of language: Qualitative data collection required that I had some proficiency here. Furthermore, Benin also has the most developed microfinance sector in the region (Chao-Béroff, Cao et al. 2000: 8). Apart from holding country-specific variables constant by choosing cases from Benin, I chose institutions above a certain size (10,000 clients) and age (5 years). The commercial MFI has requested that its name be disguised, so I will use COMFI as a substitute for its real name. The other two are PADME (non-profit) and FECECAM (member based).

In order to follow the research strategy as explained above, I interviewed representatives for all three institution types. To find interview persons, I asked for general information about the institutions and was referred to managers or senior staff. Where possible, I interviewed both central and local employees. Furthermore, I wanted third parties' opinions on the views expressed by the institutions themselves as well as general knowledge of microfinance in Benin to place the institutions in context. I achieved this by interviewing a number of representatives from the sector found through snow ball sampling (Bryman 2001: 98, 324). A complete list of persons interviewed is found in Appendix 3. I stopped interviewing when my data was saturated (Bryman 2001: 324), that is, when the new informants were not providing much new information. In sum, I did 11 interviews as well as six background interviews. To analyze the goals of the institutions, I also collected information brochures from all three institutions.

3.3.1 Problems in data collection

The biggest problem with sampling and data collection was the inability to go back to the informants and ask new questions as my research developed. Throughout the research process, my framework developed and several weeks after returning from Benin, new questions came up. But because traveling to Benin is both expensive and time consuming, I was not able to do more interviews than the first round.[19] For example, the definition of publicness became clearer and I would have liked to interview more representatives from the three case-institutions and to re-write the interview guides to more directly track changes in the theoretical framework. Moreover, I ended up having considerably more information on the non-profit institution than on the other two, because of accessibility. I have sought to overcome this by interviewing representatives from the microfinance sector, i.e. an association of microfinance institutions, the Ministry of Finance and donors.

Furthermore, data collection in French was a challenge. Even though I was able to do the interviews myself, I was accompanied by an interpreter during the interviews. This was partly to translate when I did not know the exact words and partly to discuss cultural misunderstandings along the way. The few times where interpretation is used during the interviews are marked in the transcripts. Also, I had native Beninese French speakers to transcribe the recordings - a task that would have been difficult for me to complete, mainly due to the Beninese accent on the verbs. In order to ensure a uniform transcription, I made a transcription guide (Appendix 4). In the guide I specified that as much as possible should be transcribed, including the sounds and pauses, in order to obtain the highest possible accuracy when I was not transcribing myself. This, however, made the transcript rather difficult to read. In the translations of the quotes I use, I have removed the worst pauses and small words.[20] Finally, I listened to all the recordings myself and found only few errors. The transcripts are attached as Appendix 5.

Interviewing was semi-structured interviews and followed interview guides. Questions were broad in order to get the opinions of the interviewees and because my theoretical framework developed in an iterative process together with my data analysis. For interview guides, see Appendix 8. In coding my material, I have followed Bryman's general recommendations (Bryman 2001: 398), including reading through the material shortly after the interviews were made in order

[19] And because phone line connectivity is low and of poor quality.
[20] I insert the French text as footnotes when I use a quote, and this is in its original format to make it easier to compare with the transcripts.

to do theoretically guided sampling, coding in the margin, and compiling the codes into categories. These categories were compared with the categories in the general framework on publicness in organizations, which I use below (Rainey, Backoff et al. 1976; Rainey 2003) and the final coding-tree was made from this. Data was coded using the software Weft QDA and output is attached in Appendix 7. The numbers in the retrieved data are used to refer to interview sections below.

Chapter 4. Theory of Organizational Publicness

In this section I will define organizational publicness as a theoretical concept. This is done in three steps: First, I look at how public organizations have been conceptualized according to three different theoretical frameworks in order to clarify my own understanding of and perspective on public organizations. Then publicness is defined and I derive a framework for assessing the degree of publicness in an organization. Finally, I discuss the theoretical implications of publicness on organizational performance.

4.1 Bringing public organizations back in

In this section three theoretical perspectives are outlined to illustrate the different roles which have been assigned to public organizations. They all have different focuses, and are labeled accordingly: A state-centered perspective, an organization-centered perspective and a result-centered perspective.[21]

According to the state-centered perspective, public and private are two distinct categories forming a dichotomy. The former is everything which has to do with the state: Its agencies, policies and effects on the economy. The public agencies and thus the public organizations are guided by legislation, rules and bureaucratic principles. The private sphere, on the other hand, consists of companies which take care of private production, and who react primarily to the market forces of supply and demand. The important policy choice in this perspective is the range of the state: Do you want more or less government? This is exemplified by a strict dichotomy between those on the left wanting more, arguing for a 'tax and spend' policy, and those on the right, arguing for a minimum-state (Peters 2001b: 2). Put sharply, the former believe in the state as an answer to all major problems like poverty, illness and low levels of education whereas the latter tend to think that government and administrators are inherently ineffective, and on the other hand that the invisible hand of the market will solve the problems over time, as long as the government withdraws. The state is studied through the formulation of 'state theories', conceptualizing the state - in one way or another - as a unitary actor (Dunleavy and O'Leary 1987). Following this view, public organizations are effectively agents of the state, controlled hierarchically and reacting to changes in legislation. Their status is dichotomous: They are either public or private - not in between. An example is

[21] This framework is inspired by Greve (2006: 25) who describes the evolution of the second perspective as an opposition to "traditional understanding of bureaucracy" and its connection to New Public Management.

Robert Dahl and Charles Lindblom, who formulated the private/public difference already in 1956 by saying that whereas the top management in a private enterprise might look down on an internal hierarchy, the top management of a public agency "often looks up to a bureaucracy as well as down to one" (Dahl and Lindblom 1953: 458). There is a hierarchy all the way from the policy makers to the street level bureaucrat, and thus public organizations have little room for independent decision making. The normative underpinning of this was the policy cycle as a normative ideal (e.g. Olsen 1978), where parliaments are the only ones to make legitimate decisions for the public, also with regard to the behavior of public organizations.

The second, organization-centered, perspective takes the public organizations as a distinct focus and unit of analysis. The new development is the idea that these organizations are not just 'public agencies' who respond to bureaucratic orders from above and changes in the legal framework. On the contrary, "public agencies carry out and shape policies, and in so doing they contribute to or detract from the effectiveness and legitimacy of regimes," as Wamsley and Zald noted in a seminal work (1976 [1973]: 10). An elaboration of this perspective is the conception that public organizations actually react to all kinds of stimuli, not just the ones rooted in the state, which should be studied by looking broadly at "the life in public organizations" (Beck Jørgensen and Melander 1992). This development from the state-centered approach is rooted in two bodies of scholarship: Partly from organizational theory, and partly from implementation research. Organizational theory was developed chiefly by looking at the private sector, and even though much of it was dedicated to challenging the normative and empirical idea of the uniform, rational and well-structured organization by describing the organizations' unclear borders and 'organizational anarchy', it had nevertheless taken the organization as a unit of analysis (Brunsson and Olsen 1998: 16). Implementation research on the other hand, looked at the policy cycle and challenged the hierarchy between policy and implementation by identifying a number of obstacles obstructing the sequence from policy to outcome (Pressman and Wildavsky 1973; Hjern and Porter 1981; Winter 1990). First this was perceived as an implementation deficit, giving the critique a negative tone, but the bottom-up research moved on from critiquing the empirical basis of the policy cycle, to challenging the normative idea too, thereby taking a "positive view on discretion" involved in the implementation of policies (Barrett 2004: 256). The independence of policy from outcome, however, was recognized by both sides.

Following this, numerous studies tried to pin-point the exact difference between public and private organizations on such issues as output, management, values and decision making (Rainey,

Backoff et al. 1976; Perry and Rainey 1988; Bozeman and Coursey 1990; Scott and Falcone 1998; LaPalombara 2001; Mueller 2003: 374-9). The underlying framework for understanding the difference between public and private was further developed through discussion of whether the traditional definition of publicness as "ownership and funding" (Wamsley and Zald 1976 [1973]) sufficiently captured the nature of public organizations, or whether a broader framework was needed. Bozeman's focus on political authority expanded the framework, and I draw upon his work in my conceptualization below (Bozeman 1987). One of the results from these developments was several attempts to develop a distinct organization theory for the public sector, taking into account the factors affecting public organizations, e.g. a specific technical and normative environment, a different internal structure and different organizational goals (Gortner, Mahler et al. 1987; Heffron 1989; Rainey 2003; Rainey and Steinbauer 2005). Still, public organizations were studied in their own right: They were relevant in and of themselves.

The third, result-centered, perspective - which has been present through the last 15 years or so - finds public organizations relevant only to the extent that they matter to output. Thus, the focus is not on the producers, which was the emphasis in the two first perspectives, but instead on results or outputs, these being either the specific services or the policies themselves. Research on New Public Management is interested in the production of goods and services (Hood 1991), whereas research on governance and networks, e.g. Democratic Network Governance, looks at the production of policies (Klijn and Koppenjan 2000; Torfing and Sørensen 2005). The latter is concerned with identifying who contributes to the results, whereas the former does not care as much for who the producers are, as for the measurable quality and efficiency of the output. Politically, this can be seen in the emergence of the Third Way, which took elements from both the left and the right.[22] A key assumption is that private organizations can be as good (or better) in producing the services usually provided be the public sector, and public organizations - or the organizations involved in the production of public output - are important, although not as important as their results. Administratively, this has led to privatizations, where public service is delivered increasingly through private agents, or more broadly, through "the market model" of government (Peters 2001a: 23), as well as through changes in management techniques and human resource management. Public organizations are judged on their results. Other consequences are mixed forms of government and public-private partnerships. The point here is that the public sector has transformed

[22] This is a simplification, and many reservations could be taken. One is that some claim that the 'Third Way' has taken more form the right than from the left, because of it belief in market-like approaches, a suggestion stemming from Niskanen, himself a core figure on the right or "New Right" (Dunleavy and O'Leary 1987)

and that it has become less clear about what exactly is public and what is private. The state is no longer seen as a unitary actor which handles societal problems as they occur. Public organizations are not easily identifiable because private and public are interlinked in new ways. Instead, public authority is exercised in complex networks of public, quasi-public and private entities in order to produces the required results - sometimes successfully, sometimes not. The field of study is not the state, nor the organizations, and "state theories" and organization theories are thought to be either too simplistic or simply irrelevant in analyzing these changes. Focus is on the results, which are thought to be created by a variety of different actors interacting in complex ways (Torfing and Sørensen 2005: 26, 179). The important policy question in this regard is: "what [should be] the balance between public and private power [...] to produce the most efficiency?" (Kettl 1993: 30).

	Perspective 1	Perspective 2	Perspective 3
Focus	The State	Organizations	Results: Services and policies.
Public organizations react to	Legislation and regulation from above	Pressures from above, below and internal ones	Market-like features created to provide efficiency
Organizations do as policy makers want	Almost always	Rarely	Sometimes
Theories	State theories: Pluralism, Elitism, Marxism. Policy cycle theory	Organizational theory, some implementation theory	Management theory, network theory, theory on public reform
Examples	Dahl and Lindblom (1953) 1953, Dahl (1964)1964, Dunleavy and O'Leary (1987)	Rainey, Backoff et al.(1976), Heffron (1989), Beck Jørgensen and Melander (1992), Rainey (2003)	Hood (1991), Kettl (1993), Greve (2003), Torfing and Sørensen (2005)

Table 3. Three perspectives on public organizations

Thus, past research has had very different views on public organizations - the three perspectives are summed up in Table 3. Importantly, all have given them a place in the production of policy and policy results. Furthermore, it is clear that the public-private divide has been present as a heuristic component throughout. It is perhaps blurred and challenged, but it is still there. For example, the third perspective actually deals with the role of public organizations in what has also been called "relational decision making" (Demortain 2004: 975). This approach argues that although the hierarchy of the policy cycle is gone, public organizations can nonetheless participate in these new governance forms, e.g. through "governance of networks" or "governance in networks" (Jensen and Sørensen 2004: 131). The point is that public organizations still are significant actors in

this, but they interact with a wide range of other actors. Thus, the third perspective in a way supports Bozeman's view that "all organizations are public" (Demortain 2004: 975).

On this background, I will commit to the core idea that the public-private distinction can and should be used for studying public administration and that it can be useful in understanding the role of the organizations. In this attempt to bring the public organizations back in, I will incorporate some of the critiques from the third perspective. First and foremost, I replace the dichotomy between public and private with a public-private continuum. Secondly, I hold that public organizations are not interesting in and of themselves; instead, they are means to achieve political ends, even though the route is not as direct as previously thought. However, because of my interest in political ends, I choose the results as my dependent variable.

To sum up, I take the unit of analysis and the independent variable from perspective 2 (the organizations) but the dependent variable from perspective 3 (the results). In this way, I hope to reinvigorate some of the theory on public organizations, but without looking at them in their own right - it is the results that matter. In order to do this, I need to specify exactly what is meant by publicness, how it can be measured in microfinance and what difference it can make to the performance of the institutions. These issues are the subjects of the following sections.

4.2 Defining publicness

This section answers the following questions: What is publicness? How should we determine the degree to which an organization is more or less public?

I define publicness using Bozeman's concept of political authority (Bozeman 1987). An organization is public to the extent it is affected by political authority, as opposed to economic authority. Political authority stems from a group of people, a public, whereas economic authority has its basis in material wealth and the market. This definition of publicness is an extension or elaboration of the traditional political economy framework, which focuses on ownership and funding, an approach which was grounded by Wamsley and Zald (1973), but has been used in several later frameworks (Perry and Rainey 1988: 184; Antonsen and Beck Jørgensen 1997: 338; Jacobsen and Thorsvik 2002: 52; Rainey 2003: 66). The problem with this approach is not that it uses ownership and funding as concepts - I will do that too, below - but that it assumes that it is easy to determine whether or not a particular type of funding or ownership is public or private. Most often, this is not a trivial question. Ownership in itself is a concept rooted in the private sector, and it is difficult to apply this when discussing public sector organizations if its meaning in the public

sector is not elaborated. That is the background for choosing the broader 'political authority' concept as the basis for the definition, and that is the subject of this section.

A necessary comment when using formal political authority as a concept is that it is a purely formal variable and as such is in opposition to those who define publicness as a question of specific public values (e.g. Antonsen and Beck Jørgensen 1997). One reason for choosing a formal perspective is the setting: Understanding culture and values in Benin could have proven very difficult, giving the study a very low validity. At the very least it would have required more time. Another reason is the consequences for implementation, following the assumption that it is easier for a government or a donor who wishes to contribute to microfinance to set up or fund institutions doing microfinance than to affect the values of private organizations, e.g. private banks.[23] This does not mean, however, that I reject the idea that public organizations have specific cultural characteristics or specific values or that these matter to their performance. Indeed, I include the goals as perceived by the organization in the analysis, but I do not treat the informal characteristics as an independent variable.[24]

Settling on political authority as the basis of my definition, however, does not provide much insight into how I should go about judging whether or not formal authority is political or not. Thus, I need a framework for analyzing this, and this is the subject of the next section.

4.2.1 Modifying Bozeman's concept of publicness

Bozeman's framework is build on the idea that all organizations are governed on the basis of both economic and political authority (Bozeman 1987: 5). Political authority is defined as actions or power, which in one way or another can be traced back to a public. The authority of the individual citizens is labeled primary political authority, and this can be delegated to elected public officials (secondary political authority), who can pass it on to public organizations (sometimes called tertiary political authority). An organization is public if it in one way or another is affected by this political authority. A consequence of this is that "all organizations are public," because all organizations,

[23] Affecting the values of surrounding organizations is an important role for government and it could be questioned whether or not it is easier than formal influence. However, this is in the end an empirical question, which is outside the scope of this thesis.
[24] It can be discussed whether Antonsen and Jørgensen (1997) actually do this, because they start by excluding private organizations following a "formal legal" definition (1997: 338) and continue the analysis using a value-based definition of publicness as an independent variable (1997: 339) In this way, they base their analysis on a formal classification of public and private, even though they themselves term such a classification to be "increasingly difficult, and perhaps irrelevant".

both private and government, are affected by political authority in one way or another, e.g. through legislation.

To Bozeman, an organization can be public in two ways: Because it is affected by political authority or because it exercises political authority (Bozeman 1987: 84). By including both the exercise and the constraint of the authority, Bozeman's concept differs explicitly from the ownership and funding-definition: "It is not the source of publicness that matters, but its impact" (Bozeman 1987: 87). Bozeman goes as far as saying that "publicness is independent of the formal legal status of the organization" (Bozeman 1987: 85).

The opposite of political authority is economic authority, which is the type of authority exercised by owners of private companies. Economic authority is based on private wealth, and can be acquired, for example by buying and selling shares. Is this way, a distinctive feature of private ownership is that it is transferable (Bozeman 1987: 55). On the contrary, a defining characteristic of public authority is that it is non-transferable: Public owners do not have the ability to sell their share in an organization. If public owners want to withdraw, they will have to do so either by closing the institution - something they can do only if they have the majority share - or simply leave without compensation.[25] 'Share' in this case, is often not economically defined, but defined as decision making shares, e.g. seats on the board of directors. According to the property right school, the non-transferability is crucial for the efficiency, as I will comment on below.

Organizations typically have a mix of economic and political authority, and this is what make them more or less public. Bozeman does not treat the two types of authority as mutually exclusive, but as independent dimensions and thus, an organization can be low on political authority and low on economic authority or high on both (Bozeman 1987: 88, 95). The fact that the two dimensions are separate factors makes the theory 'multi-dimensional', and thus Bozeman does not just go beyond the dichotomy of public and private - he also claims to transcend the idea that there is only one dimension (Bozeman 1987: 77). His framework has been termed "the dimensional approach" (Scott and Falcone 1998).

The theory of publicness suggested by Bozeman is useful for several reasons.[26] It removes the assumption that organizations are dichotomously either private or public, but very often somewhere in between. This is useful for two reasons: First, it makes it possible to discuss variation in levels of

[25] An exception is when public organizations are sold to privates (privatization), but here, the organization changes status along the way - from public to private.

[26] In can be discussed, whether Bozeman's framework qualifies as a "theory" because of its weak causal claims, as will get into in the following. However, this discussion is not the focus in this section; the important issue is not what it is called, but what it is used for. I use it for explaining and understanding, as mentioned in section Chapter 1.

publicness instead of just using two categories. [27] Second, this is specifically relevant in microfinance because most microfinance institutions are neither public nor private, but somewhere in between. The question is not whether an organization is public or private, but how public (or private) it is. Also, the theory is clear about the origins of publicness: It is not the government or the parliament, but simply the public - or a public, because there can be many different publics. This makes it possible to adapt the concept to a different setting than a Western democracy. In this case a setting where there is a strong involvement of donors, international institutions and NGOs. Finally, the concept stresses the political nature of publicness: Political authority is distinct from the goal of economic efficiency in the marketplace.

Given all these strengths, the concept also has substantial weaknesses. One is that it is unclear whether publicness is a cause or an effect of public involvement in organizational life. Bozeman focuses on the "impacts of political authority" in his definition of publicness, and this makes it difficult to distinguish the effect of publicness from the definition of the concept. If we are to assess how publicness affects some dependent variable - in my case performance - we need a definition that is separate from the effects. For this reason, I choose to focus only on formal political authority. It might very well be that these formal ties do not matter at all, but that is an empirical question, and in order to examine this, it is necessary to single them out.[28]

Apart from the cause-effect confusion, I consider the multi-dimensionality of Bozeman's concept to be another weakness: On the one hand, Bozeman puts great emphasis on this aspect of the concept (1987: 87), but on the other he states that the "multi-dimensional theory is chiefly concerned with the *mix* of economic and political authority rather than with the *amount* of authority" (Bozeman 1987: 94, emphasis in original). In my understanding, this is a contradiction in terms: If the amount of authority is left out, the theory cannot at the same time be truly multi-dimensional, in the way he describes. The logic is shown in Figure 2. Imagine an organization with the amount of political and economic authority corresponding to point A. The only way to change the mix of political and economic authority, without at the same time changing the total amount of authority, would be to move along the iso-curve from point P to point E. Moving away from the curve would change the amount. Since this is in effect a continuum running from point P to point E, then it is still uni-dimensional. Therefore, my concept of publicness remains uni-dimensional.

[27] Some public organizations fit into the dichotomous world. Bozeman mentions primary schools as an example (Bozeman and Bretschneider 1994)

[28] By choosing this definition, I also leave out informal characteristics of public organizations as independent variable, e.g. culture and values, as discussed in section 4.2.

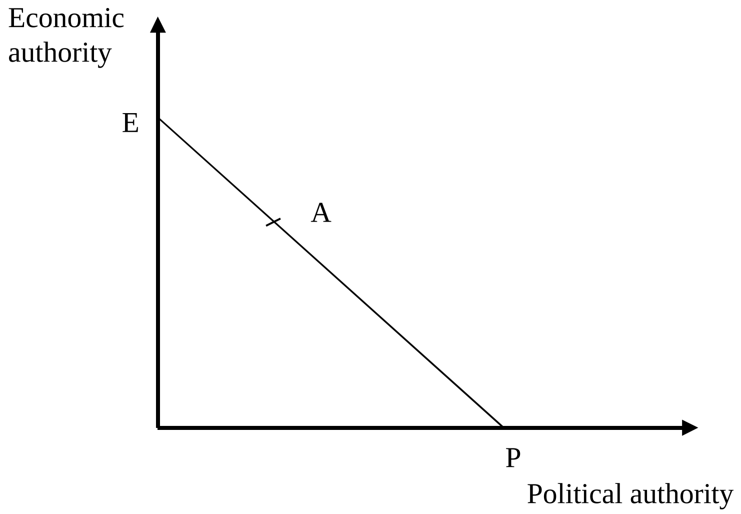

Figure 2. Bozeman's concept of publicness - a critique

Overall, Bozeman's concept of publicness is best seen as a clarification and substantiation of the political economy-framework based solely on ownership and funding, rather than as a challenge to this framework, and ownership and funding can still be useful concepts. Thus when I use "ownership" in the following, I mean that organizations are subject to formal political authority through their governance structure, as opposed to through their funding structure. The advantage of Bozeman's framework and his elaboration of the concept of political authority is that it is easier to operationalize the idea of publicness, as I will do below.

4.2.2 Framework for assessment of publicness

In order to use the concept of publicness in microfinance, it is necessary to adjust the framework to the field of microfinance, which is dominated by heavy involvement of donors, multilateral institutions and non-governmental organizations (NGO's). Furthermore, it is necessary to derive some specific principles which can be used when assessing the relative degree of publicness in microfinance institutions and thus determine which MFIs are the most public.

A starting point is the distinction between political and economic authority. Political authority is always linked to a public, a group of people who are initially equal and who do not have power because of their wealth. If an organization is influenced by political authority it has some degree of publicness. When the share of political authority is larger, the organization is more public and has a higher degree of publicness. I call this the publicness principle. An adjustment of Bozeman's

concept is necessary here because of the involvement of donors and international actors in microfinance. Bozeman does not comment on the exact group of people from whom political authority stems. But this is no trivial matter. As Blitz mentions, the public is a group of people "within some boundary, although the questions of scope and authority are often curiously undiscussed" (Blitz 2001: 12547). Instead of assuming a national public, I will define a public simply as any group of people where the members of the group are as already mentioned, initially equal and do not have power because of their wealth. This gives donors and international organizations, who are accountable to groups of people, a degree of publicness.

Another idea in Bozeman's concept above is that the people exercising the authority often delegate this authority to other institutions. This delegation can occur through a number of levels, termed primary, secondary and tertiary authority. Even if the number of levels is high, and the connection between the public and the representing stakeholders in consequence is weak, the ownership is still public, as long as economic authority has not entered the formal chains of influence. But as the chain expands, the authority becomes weaker. This is termed the authority principle.

Finally, relaxing the idea of the public so that many different groups can be counted as a public, as I did above, leaves us with the issue of representation. One group can constitute a public who makes decisions which affect a different group of people, another public. To account for this in my concept of publicness, I include a third principle, the match principle, whereby an organization that is formally controlled by one group of people - one public - but makes decisions which affect another group - another public - is less public than one, where the groups overlap. For example, an organization with a limited membership, which tries to affect political processes, is less public than both a public agency and a non-economic organization, which only caters to its members. The latter example is important: An organization with a limited, but open membership can be public if the two other criteria are fulfilled.

Drawing on this discussion I can sum up the three principles, which can be used in assessing the degree of publicness.

PRIMARY PRINCIPLE

1) **Publicness principle**. An organization is formally public to the extent it is formally influenced by political authority. Political authority stems from a group of people that is initially equal and that does not have power because of its material wealth. If a large part of

an organization's activities is formally influenced by political authority, then the degree of publicness is higher than if the influence is limited, e.g. to regulatory influence.

SECONDARY PRINCIPLES

2) **Authority principle**. Authority is weakened by representation, and thus the strongest authority is the direct one. When the chain of influence gets longer, the degree of political authority and thus the publicness, decreases. In Bozeman's words primary public authority is more public than tertiary public authority.
3) **Match Principle**: If the public (understood as a group of people) that exercises public authority over an organization is different from the public that is affected by that organization, then the authority can be said to be less public, and publicness decreases.

The publicness principle is the most important of the three, because the influence of a public is at the core of political authority. It is the connection to a public that makes organizations public. In this way, the authority principle and the match principle cannot contribute to making an organization more public than what has been grounded by the publicness principle; they can only make the degree of publicness weaker, in cases with low levels of authority and low degrees of match.

As mentioned above, ownership and funding are still important variables when looking at publicness from the basis of the three principles. Ownership and funding are central sources of authority, and thus they can channel both political and economic authority. Political authority is channeled through ownership, for example, when public agencies are represented on the board of directors at an organization. Such an organization might get its funding from selling a product or a service, and then funding is not a source of political authority. The opposite is the case, when a private entity - whose ownership represents only economic authority - is funded by selling to the state. Then funding is a source of political authority. Some typical examples are shown in Figure 3.

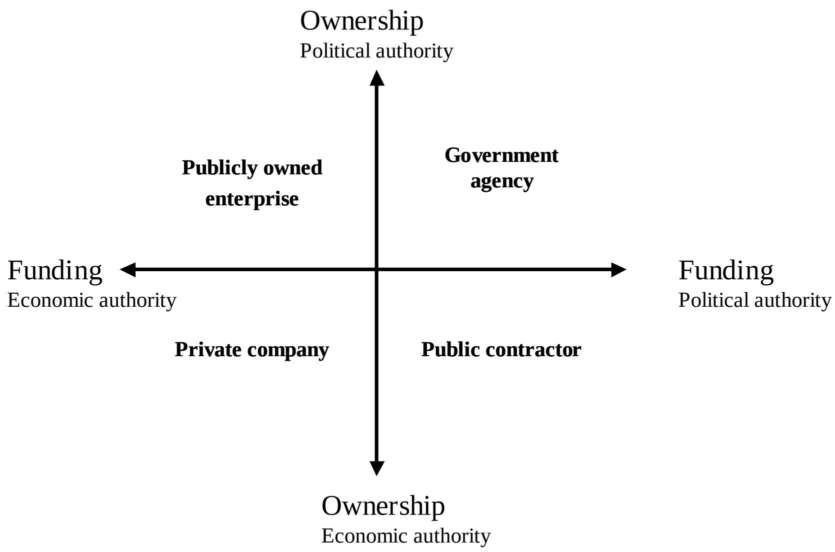

Figure 3. Ownership and funding. Source: Transformed version of figure 1-1 in Wamsley and Zald (1976 [1973]: 10).

It should be noted, however, that even though ownership and funding are likely to be central sources of political and economic authority, they are not the only sources. The two should just be taken as guiding examples, and the valid sources of authority is an empirical question. In the qualitative analysis below, I will be able to examine the sources of authority for three microfinance institutions.

In the next section I will construct three ideal type models of microfinance and assess their degree of publicness using the principles above, and the framework of ownership and funding. These ideal types will be used both in the quantitative and the qualitative analysis.

4.3 Models of microfinance based on publicness

Unlike 30 years ago, when most rural financial institutions where publicly owned, the microfinance sector is today characterized by having a wide range of different institutional types with different degrees of publicness. All typologies will be approximates, and the below types should be taken as ideal types in a Weberian sense of the word. Thus, these ideal types are not necessarily represented by real institutions, but are merely tools, which I use in my analysis. In Weber's words: " …in its

conceptual purity…this mental construct…cannot be found empirically anywhere in reality" (Weber 1949 [1903-1917]: 90). The three models are:[29]

- Commercial MFIs
- Non-profit MFIs
- Member-based MFIs

Commercial MFIs consist of two types: Ordinary banks, which have decided to commit some of their organization and capital to microfinance activities, that is, to target poorer groups specifically, and non-profit MFIs who have transformed themselves into commercial institutions. Commercial MFIs are also governed by a board, but a part of their profits go to the investors as dividend. As with other private companies, the ownership is with the stakeholders. Even though the stakeholders can be, and often are, a mix of private and public actors, like international organizations and donors, the ideal type is completely privately owned.

Non-profit MFIs are both NGOs and the so-called non-bank financial institutions. A common characteristic is that all the income from the activities in the organization will be invested in the development of the organization. Usually, they are governed by a board, which may or may not have representatives from the government. Often the board is comprised of representatives from some international NGOs like FINCA or Freedom from Hunger, from national donors like DANIDA and DFID and/or from international institutions like the World Bank. The ownership is with the members of the board and funding might come from income from credit activities or from donors.

Member-based MFIs are mutuals and cooperatives, typically with a democratic organization and a one-person, one-vote governing structure. They rely on involvement at the village level and get their income from their credit portfolio. Typically, they can access cheap capital through savings. The ownership is with the members and all profits are invested in the institution.[30]

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[29] As mentioned earlier, Zeller and Lapenu uses a similar distinction (Lapenu and Zeller 2001).

[30] In most cases the Member based MFI is also a non-profit institution in the sense that all investments are channeled back into the institution, and thus it would be logical to label this the "Member Based Non-profit MFI's". For simplicity reasons, I leave 'non-profit' out of the label. Moreover, whereas the legal framework in Benin requires Member based

What is the degree of publicness in these institutions? Using the principles, which I outlined in the previous section, it is possible to analyze the status of each type.

The commercial MFIs are the most clear cut: Drawing on the first Publicness Principle, it is clear that their degree of publicness is very low. Their ownership and funding are private and thus they are governed by economic authority. The only relevant political authority is the authority governing regulation: Specific microfinance regulation as well as general business regulation. Acknowledging this, it is clear that the two other principles are only marginally relevant, but it is still possible to apply them: From the authority principle, I find that political authority exercised on the commercial MFIs is tertiary: Supervisory bodies have been given the authority from the parliament. Following the match principle, I find that since the MFIs principally serve the entire public, and since the public has formal authority over the regulation in question, this does not compromise the publicness of the commercial MFIs. However, because this is only a subsidiary principle, it does not make it more public either.

The non-profit ideal type has a higher degree of publicness than the commercial MFI. Following the publicness principles, the non-profits are very public, because all of their ownership usually refers back to a public of some sort. However, this is weakened by the other two principles. According to the Authority Principle, however, publicness is low because of the long distance from the public to the institutions: If the public, which has formal authority over, for example, the World Bank, wants to have influence, the chain of influence is very long. Also, the match principle makes the degree of publicness lower: The publics who influence the governing bodies are usually different from the publics these bodies have effects on. The World Bank, for example, is led by a board with mostly western governments represented with reference to their governments' shares of the bank.[31] In effect, this makes the Bank governed by a mix of political and economic authority, because different publics are represented according to their wealth. In sum, the non-profit MFIs have a medium degree of publicness.

As for the member based institutions, they can be classified as very public following the publicness principle: The formal authority comes from the clients, who represent a public because of the one-person-one-vote system. Moreover, the chain of authority is shorter than in the two

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MFI's to be non-profit seeking (Government of Benin 1998: §2.1) there might be other places where the Member based MFI's actually disburse profits among its members.

[31] The largest shareholder, the USA, determines the president and the 5 largest shareholders each have one representative on the Board of Directors, whereas the rest - among these the developing countries - must share 19 spots. See World Bank (2007).

others, and there is a match between the group with influence and the beneficiaries. In total this makes the member based institutions the most public of the three.

Principle	Commercial MFI	Non-profit MFI	Member Based MFI
The Publicness Principle	Very low	Medium	High
The Authority Principle	Medium	Low	High
The Match Principle	Medium	Low	Medium
TOTAL	**Least public**	**Medium public**	**Most public**

Table 4. Degree of publicness using the three principles

The classification is summed up in Table 4, which can be translated into a ranking, starting with the lowest degree of publicness:

More public ↓

1) Commercial MFIs
2) Non-profit MFIs
3) Member Based MFIs

This ranking will be used in the following analysis.

Establishing the basis for publicness assessment is only one step along to way to use publicness in analyzing microfinance. Another important step is the consequences of publicness in general, and specifically in the case of microfinance. This is the subject of the next chapter.

4.4 Consequences of publicness

Together with the question of definition, the question of consequences of publicness has been widely debated. First, it has been debated whether publicness matters at all. Second, those who think it matters have debated how it might matter. With respect to the first question - does publicness matter? - Scott and Falcone (1998) has given an overview of the debate, which I build upon below where I outline two key approaches:[32] On the one hand is the generic approach, which claims that it does not matter substantially whether an institution is private, public or in between,

[32] In their article, Scott and Falcone actually count Bozeman's 'dimensional approach' (Bozeman 1987: 60; Bozeman and Coursey 1990: 527) as a third approach. For reasons mentioned above, I do not count this as a separate approach.

and on the other hand is the core approach, which holds the view that it makes a substantial difference whether or not the institution gets funding and is owned by a government.

4.4.1 The generic approach

As mentioned, the generic approach claims that it does not matter who owns and funds the institutions. Some organizations might be publicly owned, but this fact has less influence on the organization's behavior than many other variables, like outside pressure and individuals' cost-benefit analyses (Scott and Falcone 1998: 127). James Thompson, an early representative of this approach, has pointed out that even though the two types might have differences, they share more similarities (cited in Rainey 2003: 58). Literature reviews on organization theory often make this assumption simply by treating the two kinds of organizations as one. This is the case for Hatch (1997), Morgan (1997), Jacobsen and Thorsvik (2002: 15) and Douma and Schreuder (2002), for example. Many of these scholars would probably agree to some extent that it matters from where organizations get their funding, but the key point is that they take this to be less important than other characteristics. Others seem to look right through the distinction. An example is Douma and Schreuder who deal explicitly with ownership structure, but only with regard to different private forms. At the same time, when it comes to giving examples, they mention mostly public institutions (Douma and Schreuder 2002: 57). In other words, they use public institutions as examples but deal theoretically with private ones. Thus, they ignore the private/public divide.

One reason for many not to focus on the distinction is that publicness for the most part has been defined formally, as I also do here. The result of this is that organizational theories which focus on informal characteristics like culture, norms and identity often, though not always, belong in the generic category. Formal characteristics, and also ownership, is not taken as an important variable by this class of scholars (see for example Hatch and Schultz 2004). This does not mean that scholars who follow the generic approach never base their findings on a positivist epistemology and formal characteristics. Before-mentioned Douma and Schreuder (2002) is an example of this: Even though they do acknowledge the significance of formal ownership, they do not treat public and private organizations as significantly different. They might be different, but not different enough.

4.4.2 The core approach

The core approach, on the other hand, takes the degree of publicness to be of utmost importance. Wallace Sayre's often quoted line underscores this: "Public and private management are fundamentally alike only in all unimportant respects" (cited in Allison 1986 [1979]: 214). Examples

include that public organizations are not subject to pressure from the market, and managers' incentives are less clear in that they do not have important market signals to react to (Scott and Falcone 1998: 128). This makes their results different from those produced by their private counterparts.

As mentioned above, publicness is commonly defined formally, and thus there tends to be a connection between the core approach and epistemology, even though this is not always the case. Branches of positivism/realism and rational choice theory dominate and it is assumed that incentives and utility maximization is what drives individuals (Peters 1999: 44). The thinking is that different ownership gives different power structures, and thus it changes the way the organizations behave. Exceptions to the rule about publicness and epistemology include Jacobsen and Thorsvik (2002), and Heffron (1989), who also consider cultural differences. Another exception is Antonsen and Beck Jørgensen (1997), who define publicness as the organization's commitment to a set of public values.

In the following analysis, I will look at the evidence in support of the two approaches within microfinance. This is to answer the question: Does publicness matter in microfinance? In order to facilitate the analysis, I formulate a hypothesis about publicness in organizations:

H1: The degree of publicness affects the performance of the organization.

Confirmation of this hypothesis will support the core approach, whereas rejection will support the generic approach.

4.4.3 What difference should publicness make?

In this section, I use rational choice theory to predict how microfinance institutions differ according to their degree of publicness. There are several other approaches to organizations that could be relevant here. [33] I choose the rational choice framework because I find it useful and appropriate in answering my research question. Since publicness, the independent variable, is formally defined, I needed theory that has formal characteristics of organizations as a central component, and this is the case for the rational choice framework.

[33] Scott, for example, include rational choice as one of three overall frameworks in organizational sociology, the other two being "natural" and "open" systems (Scott 1998). Taylor and Hall writes in a political science framework and complements rational choice with sociological and historical institutionalism (Hall and Taylor 1996)

As mentioned in section 2.2, the independent variables are financial and social performance, because this is at the core of the microfinance promise. What exactly is meant by financial and social performance, and how this is measured will be discussed in Chapter 5, concerning the quantitative analysis. To arrive at the consequences of publicness on performance, I have to start with the efficiency of public organizations. A common view here is, that efficiency matters less to more public organizations. They "suffer from red tape, 'passing the buck', timidity, inflexibility, impersonality, and overcentralizations" (Dahl and Lindblom 1953: 372). This conception of public organizations is found in numerous other and newer analyses of the public/private divide too, most notably the public choice school, which argues that public institutions have limited incentives to reduce costs and make reforms for efficiency:

> *"The term bureaucracy suggests routinized and constrained behavior, and inefficiency."*
> *(Mueller 2003: 359).*

Niskanen, who is said to be the founder of this approach, conceptualizes public officials as budget maximizers and argues that public agencies will grow even without the demand for public services (Dunleavy and O'Leary 1987: 117). The non-transferability of the public ownership is thought to be a driving force in this inefficiency. Conversely, it is the transferability of private ownership that makes organizations focus on efficiency because an owner can buy shares in an organization, make it more efficient, and resell the shares at a higher price (Bozeman 1987: 55).[34]

At the same time, public officials have personal interests in a larger budget for their own office for various reasons, for example improved promotion prospects, easier management of the office, and personal material gain in the form of funds or patronage or simply prestige (Dunleavy and O'Leary 1987: 114). Niskanen does mention that managers probably also care about the output of their office, but this preference is taken to be less important than the others (Mueller 2003: 363). The fact that the managers in public offices have control over information about their own affairs gives policy makers and politicians little possibility to control their spending (Peters 2001b: 13). Even in cases where they do have the possibility, the cost of information is said to be higher than their personal benefit leading to "rational ignorance" (Mueller 2003: 379). All this makes public organizations less efficient than their private counterparts.

[34] An extreme example of this is equity funds, who recently have started doing just that.

Mueller (2003: 374) summarizes 71 studies comparing public and private firms providing similar services. In 56 of these, the private institutions were more efficient in the production and in 10 of the studies there was no significant difference. In five studies the public institutions were the most efficient. In many cases, the comparison is difficult because of regulation of the private firms, for example the price regulation of electricity in the US, which changes the behavior of the private firms. However, the list contains six studies of comparisons in non-regulated markets like manufacturing. In all of these, the public firms are less efficient than their private counterpart.

How does this matter to financial performance in public organizations and in microfinance institutions? In the general case of public organizations, even efficient organizations can have a poor financial performance, for example if they are located in areas with a difficult economic situation. Moreover, public organizations can be very efficient in the providing output, but the output can at the same time be unrelated to the financial performance. This is the case for public organizations, which do not engage in income generating activities: They will not get a stronger financial performance from becoming more efficient. In the case of microfinance, institutions are by definition engaged in an income generating activity (as described in section 2.1) and thus, I assume that a higher degree of efficiency will also lead to a better financial performance. This can be formulated as a hypothesis:

H2. Microfinance institutions with a low degree of publicness have better financial performance compared to organizations with a high degree of publicness.

This hypothesis holds true following the organization theory described above. But what would the theory predict regarding the social performance? In this regard, it is useful to distinguish between two types of goals, transitive and reflexive goals (Mohr 1973; Bozeman 1987: 103). The transitive goals relate to what goes through the organization, i.e. its output, which in the case of microfinance, is the products and services the institutions deliver and the targets groups these should be delivered to. The reflexive goals are internally oriented results, for example organizational growth, prestige or profitability (Mohr 1973: 476). The two are intimately interlinked, but the point is that theory predicts a difference in the relation between the two when it comes to private vs. public organizations. In this specific case, social performance is a transitive goal because it is external to the organization, whereas financial performance is internal and thus a reflexive goal. From the theory, less public organizations tend to have a stronger focus on their reflexive goals, and thus

even though they might have transitive goals, these are not considered as important (Bozeman 1987: 103). A more public MFI would be expected to have a stronger social performance than a less public one. To an MFI with a low degree of publicness, for example a commercial MFI, its output is not as important as the internal goal of good financial performance. Thus, organizations with a higher degree of publicness could have a lower financial performance because their priorities are different: More public organizations care more about their social performance and this makes them less financially sustainable. This is supported by the general logic that small loans are more expensive to administer than large loans: The administration of 10,000 loans of $500 is more expensive than that of 500 loans of $10,000. In other words, there could be a simple trade off between social and financial performance and this should be considered when looking at the difference between less and more public organizations. Following this logic, I can formulate a third hypothesis:

> **H3. Microfinance institutions with a high degree of publicness have a better social performance than organizations with a low degree of publicness.**

The three hypotheses will be operationalized and tested, primarily in the quantitative analysis in the next chapter and will contribute to answering two of the three sub-questions to my main research question: The descriptive question concerning whether or not publicness matters, and the explanatory question concerning how publicness matters.

Chapter 5. Quantitative analysis

The most tricky part in doing a quantitative analysis is the operationalization: How do I go about measuring publicness and performance? This is what the first two sections in this chapter are about, and naturally, the measurement is heavily constrained by the data available, so I consider these constraints. Afterwards, I turn to the analysis of publicness and performance, and finally, I sum up conclusions and questions for the qualitative analysis. Thus, the role of the quantitative analysis will be both to answer a part of my research question, but also to generate some new questions, which are to be answered in the qualitative analysis - in this way the quantitative and qualitative analyses facilitate each other as described in section 3.2.

5.1 Measuring the independent variable: Different models of microfinance

The independent variable is the degree of publicness, as defined by the different types above: The commercial, the non profit and the member based MFI. The variable in the dataset that comes closest to this is called "Charter Type." This variable codes the formal registered type of each microfinance institution, and even though the above listed types are governance structures it seems reasonable to assume that the overlap here is large.

The primary challenge is that the dataset variable "Charter type" can contains five categories instead of two: Commercial MFIs, Credit Union, Non-Bank Financial Institution (NBFI), Non Governmental Organization (NGO) and Rural Bank.[35] In this context, however, the NBFI and the NGO are similar when it comes to publicness because the difference between the two is one of regulation. NGOs can register as NBFI if the country in which they operate has established special NBFI-regulation. Thus, it is not a change in the institution that makes the difference, but merely a change in the regulatory environment. This is for example the case in Bangladesh, where the Grameen Bank started as an NGO, but "became" an NFBI when the legislation was passed (Hossain 1988: 12; Grameen Bank 2007). On this background, I merge the two categories into one and the resulting category non-profit MFI in accordance with the ideal type in section 4.3. Moreover, rural banks - or Rural Development Institutions - are most often controlled by governments and this is not a part of the new microfinance, as I discussed in section 2.1. Because of this, and because only 8 of the 301 institutions (2%) fall in this category, I leave this category out. This leaves me with a

[35] The MixMarket uses "Bank" instead of "Commercial MFI's", but the meaning is the same (MicroBanking Bulletin 2005).

measure for the three primary institution types: Commercial MFI, Non-profit MFI and Member based MFI.[36] Transforming the data to fit the new categories turns our to be challenging - the obstacles are treated in detail in Appendix 8.

5.2 Measuring the dependent variable

In this section, I discuss the reasoning behind, and limitations with, the measures I use for my dependent variables, the financial and social performance of the microfinance institutions. Generally, the measures are chosen because of their advantages compared to the other measures in the data set. In my analysis below, I use loan and savings size as a measure of social outcome whereas financial performance is measured by looking at financial self-sufficiency.

The use of loan and savings size as a measure of the social outcome in microfinance is both common and debated (Hatch and Frederick 1998: 12). It is common due to its low data collection costs, but there is agreement that there is a serious cost/validity trade-off related to the measure. Generally, a large body of research on impact in microfinance has concluded that measuring impact in microfinance is both immensely difficult, very expensive and time consuming (Hulme and Mosley 1996b; Morduch 1999: 1597-98; Hulme 2000b; Wright and Copestake 2004; Armendariz de Aghion and Morduch 2005: 199-255; Khandker 2005; Coleman 2006). Thus, resource constraint is an important reason for the very low validity on this measure. However, this does not prevent me from considering the more specific shortcomings, in order to take them into account and to improve future data collection.

Three issues are particularly important when using loan and savings size as variables: They are indirect in that they use the output (e.g. loan size) as a proxy for outcome (well being or income), they reduce well-being to monetary income, and they measure static well-being instead of a change in well-being. Below, I comment on these three factors and explain why I, despite these shortcomings, choose loan and savings size as the measure.

[36] It should be noted that this division is not commonly used in Benin. Instead, a variety of distinctions are used. Consortium Alafia, which is an association of microfinance institutions in Benin, distinguishes between Member based, NGO and Association MFI's, where NGO's are organizations who are doing something else than microfinance as their core business. Associations, on the other hand is what I label Non profit MFIs. I choose Non profit MFI because Association can easily be mistaken for Member based or Cooperative. Organizations, which do not have microfinance as their core area, are not included in my definition of MFI's. Another commonly used distinction in Benin is between 1) Member based/cooperatives, 2) Credit direct and 3) Others. Whereas 'Credit direct' is somewhat similar to the Non-profit MFI used above, I choose the latter because this concerns the organization structure, whereas the latter concerns the product.

First, in using loan and savings size as a proxy for well-being, I base my findings on the underlying assumption that more poor clients on the average take smaller loans than the less poor clients. In looking at this question with regard to loan size, Julia Paxton notes that this neglects the difference between sectors: In some sectors, like informal commerce, there is a high demand for small loans with short loan periods, whereas others, for example agriculture, need larger loan sizes and longer terms (Paxton 2003). Another related shortcoming of these measures is that they focus on the mean. Thus, even if loan size were a good measure for the poverty level of clients, it would not reveal how many poor, in absolute numbers, an institution reaches. Thus, an institution with a higher mean but a larger variance might reach more poor people than an institution with a lower mean, but a smaller variance. Finally, when comparing between countries, it is necessary to deal with different poverty levels and different levels of purchasing power. I overcome this by dividing the average loan- and savings sizes by GDP per capita. Because both the loans and the GDP are in the local currency, the percentage-result does not have to be adjusted for a difference in purchasing power.[37]

Second, well-being is many other things than merely economic living standards, as the intense discussions about how to measure "quality of life" have shown (Nussbaum 1992; Weale and Dasgupta 1992; Nussbaum and Sen 1993; Sen 1999; Baulch and Masset 2003; Summer 2003). Thus, many factors could be considered as directly improving living standards: Improved access to health or schooling (Anand and Ravallion 1993), improvement in political factors such as democratization and more civil liberties (Sen 1999), and improvement on subjective well-being (Kanbur 2003). When I settle on the simple output measure for this analysis it is not because I wish to neglect the many sides of this complicated question. It is simply because my ambition is to compare institutions across countries, and this data is the only available for that purpose. When that is said, I do not consider it unlikely that the measures of well-being just mentioned correlate with the more narrow economic indicator. This is also what research in the area indicate (Baulch and Masset 2003).

Third, loan and savings size are static measures, and thus they do not capture the improvement or lack of improvement in well-being, which has resulted from joining the microfinance institution. This shortcoming could be overcome with a time series analysis, but unfortunately this data is not available.

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[37] It does add an extra measurement error from GDP, which can be very difficult to measure, especially in countries with large informal economies - which many of the countries in my data set have.

To sum up, the validity on the variable used for measuring social outcome could certainly have been higher. However, by highlighting the methodological problems, I can take them into account and also inspire future data collection efforts.

Apart from social performance, I also need to measure financial performance. One of the unique aspects of microfinance institutions, compared to other public and semi-public institutions is that they actually have a measurable financial performance. This builds on the fact that the main source of funding for microfinance is income from interest on loans and commercial capital borrowed in local commercial banks. However, there are other important and cheaper sources of finance, such as donors, social investors and international institutions and thus I need a measure that can subtract both the grants given from donors, but also the discounts which are given as subsidized credit. Financial self-sufficiency is such a measure, and for this reason it is also commonly used, e.g. by Cull, Demirgüç-Kunt et al. (2006). The measure is defined as total revenue over operating expenses adjusted for loan-loss expenses, inflation and subsidized costs of funds (CGAP 2003: 13). Thus, financial self-sufficiency takes into account all revenue, but not donations or revenue from other activities than the microfinance business. The measure is made to approximate how close the institution is to covering all expenses from its own revenue. If financial self-sufficiency is 100%, the institution can cover its operating costs by its own revenue.[38] A problem with this measure is that it treats all costs as equal when simply subtracting donor subsidies. But all costs are not equal. As I show in the case studies below, donor funding is often affiliated with non-monetary costs like reporting and inflexibility, and thus subtracting only the subsidies might return a too negative picture of the organization. Moreover, the measure is static: It does not take into account the subsidies given in other years than the one in question. This will also be treated in some detail in the case analysis, because it turns out to be relevant for the commercial MFI. The variables are summed up in Table 5.

[38] An alternative measure with somewhat the same goal is Yaron's Subsidy Index (Hulme and Mosley 1996b: 13), which measures the percentage increase in the average interest rate needed to obtain financial self-sufficiency. This is to some extent a more precise measure, but it is not available across institutions.

Variable	Indicator	Problems
Social performance	Average loan size/GDP per capita Average saving size/GDP per capita	Measure static well-being instead of change. Small loans do not necessarily mean poor clients. Standard of living is different from economic poverty. GDP can be a ruff estimate.
Financial performance	Financial self-sufficiency	Does not include non-monetary costs of donor funding. Static, snap-shot picture of finances.

Table 5. Variables and measurement

5.3 Expectations

In the previous sections, I have elaborated on the measurement of the independent and dependent variable. Before moving on, I will briefly discuss the expectations for these variables.

The hypotheses (formulated on page 41, 43 and 44) state that first and foremost, I expect the microfinance institutions to perform differently across institutional setup (H1). Secondly, the institutions with a lower degree of publicness - more private institutions - are assumed to have a better financial performance (H2) and a lower social performance (H3) than the institutions with a higher degree of publicness. Commercial MFIs are thus expected to have a higher financial performance, but a lower social performance than the other two types. Before moving on to looking at whether this is actually the case, I will give a descriptive introduction to the data I use.

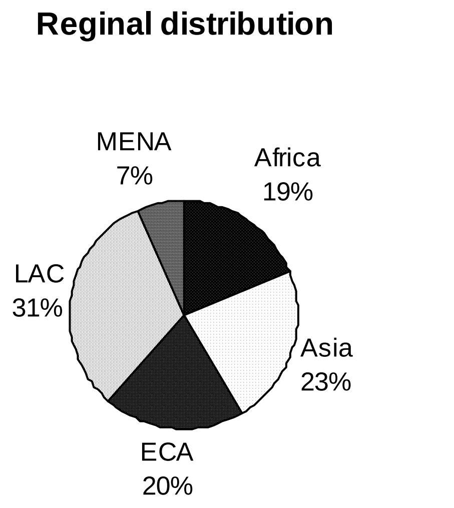

Figure 3. Regional distribution of data. Africa: Sub-Saharan Africa. Asia: South & East Asia, ECA: Europe & Central Asia, LAC: Latin America & the Caribbean, MENA: Middle East & North Africa

5.4 The data

The dataset used consists of 301 microfinance institutions from all over the world and is gathered by the Microfinance Information Exchange, the primary

deliverer of information on microfinance worldwide.[39] Even though the data is the best available, it has a series of shortcomings. First, it is not random. The institutions choose for themselves if they want to report their data to the Microfinance Information Exchange, and thus the sample can not be taken as representative of the entire sector. However, Cull, Demirgüç-Kunt et. al. uses the same dataset (2006), and they estimate that the institutions included represents above 50% of all microfinance clients in the world. At the same time, it covers all regions (see Figure 4). Second, it is self-reported, which could give measurement errors that are non-stochastic. However, a large part of the institutions publish independently revised financial statements, giving more credibility to the numbers. Finally, this dataset – or older versions of it – is commonly used in the microfinance research (Armendariz de Aghion and Morduch 2005).[40]

Because of confidentiality, the actual raw data are not made public.[41] Instead, the Mix Market has published a wide range of statistics from the data (21535 statistics in total),[42] and it is some of these I use for the calculations below. MFIs are grouped in 59 different ways, and a total of 73 variables are reported for each grouping, adding up to a total of 4307 fields. For all fields, five statistics are reported: The median, average, maximum, minimum and standard deviation. The standard deviations make it possible for me to do the actual statistical Analysis of Variance (ANOVA). Groups include, for example, size, region and age, whereas the variables include number of offices, Gross Loan Portfolio and numerous performance indicators. An example of data is enclosed in Appendix 9, where the average values are shown. Because of the limited access to the data, it is not possible to do various forms of statistical analysis, e.g. regressions. However, the wide range of reported statistics makes it possible to do some analysis, most notably Analysis of Variance because the standard deviations are amongst the reported statistics.

5.5 Results

In this section I will report the key results. A comprehensive overview of the calculations is found in Appendix 8. As mentioned in section 5.1, I use the variable 'Charter Type' as a measure of publicness. The measure for financial performance is financial self-sufficiency and the two

[39] The Microfinance Information Exchange is supported by the World Bank, The Citibank Foundation the Open Society Institute and others. The data, and other information, can be found on www.themix.org.
[40] During the research, numbers from 2005 were made available, but these do not report the standard deviations and therefore I use the 2004 data.
[41] It is possible to get tailor-made runs like regressions done through the Mix Market, but this is not free and was considered out of reach for the resources available for this thesis.
[42] Five statistics in 4307 fields = 21535 statistics in total.

measures for social performance are average loan balance per GNI/capita and average savings balance per GNI/capita.

The results for financial self-sufficiency are displayed in Figure 4 and Table 6, which shows the average value in the three categories. Furthermore, the 95% confidence intervals are shown, calculated from the standard deviations.[43] All categories are above 100%, which shows that the institutions in the dataset are, on the average, financially sustainable. There is a small difference in the value across the different groups, but an Analysis of Variance F-test shows that this difference is very likely to be due to random variation. An H_0 hypothesis stating that all means are equal can not be rejected Appendix 8. Thus, I can conclude that there is no difference in the financial self-sufficiency across institutions. After looking at the other variables, I will derive what this means for my hypotheses.

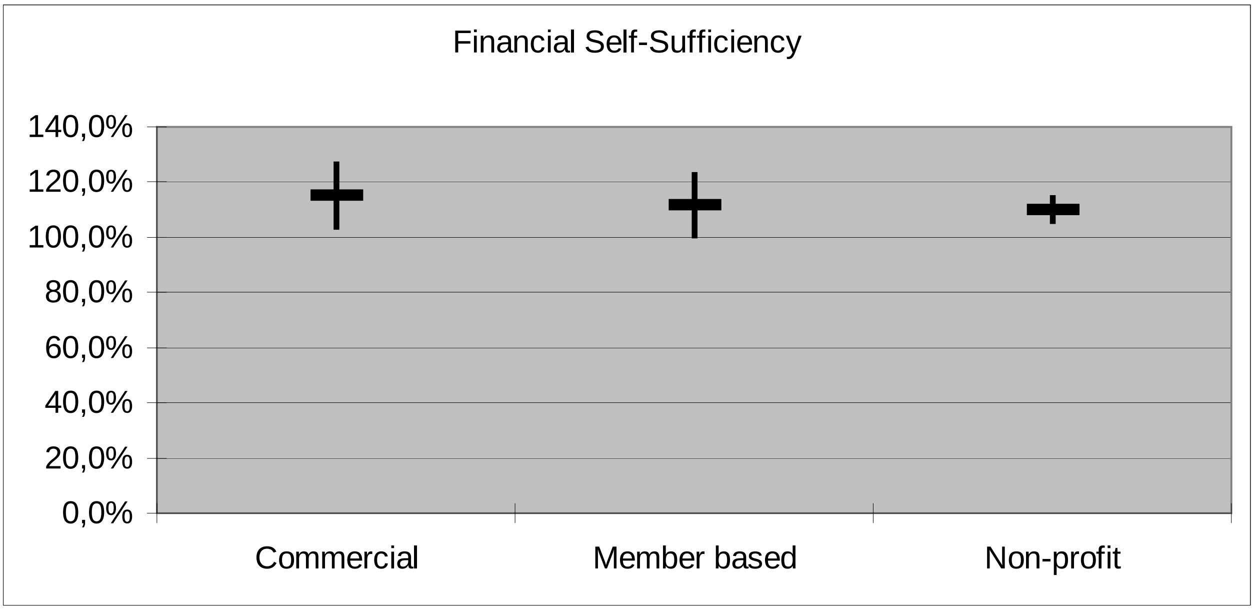

Figure 4. Financial self-sufficiency by institution type.

[43] The formula used is $\hat{\mu} \pm 1.96\hat{\sigma}_{\bar{Y}}$ - see Appendix 8.

Financial self-sufficiency	
Commercial MFIs	115.2% (34.1%)
Non-profit MFIs	110.0% (31.8%)
Member Based MFIs	111.7% (29.5%)
F-test value	0.41
P-value	0.66

Table 6. Financial self-sufficiency.

See Appendix 8 for calculations. N=301.

In a similar way, the results for average loan balance are displayed in Figure 5 and Table 7 together with 95% confidence intervals. The values are the average loan balance divided by per capital GNI across institution types. The values range from 60% to 110% of GNI, which can indeed be small amounts because of low GNIs per capita - for example, the PPP-adjusted GNI per capita for Benin was 1100 USD in 2004 (UN 2006a). It seems that there is a larger difference between institution types in the loan balance compared to what was the case with the financial self-sufficiency. An F-test shows that this is indeed the case - the difference is statistically significant on a 1%-level (see Table 7 and Appendix 8 for calculations) and the H_0 hypothesis stating that all means are equal can be rejected by the data. Thus I conclude that the average loan balance, and thus a part of the social performance, is different across institutions.

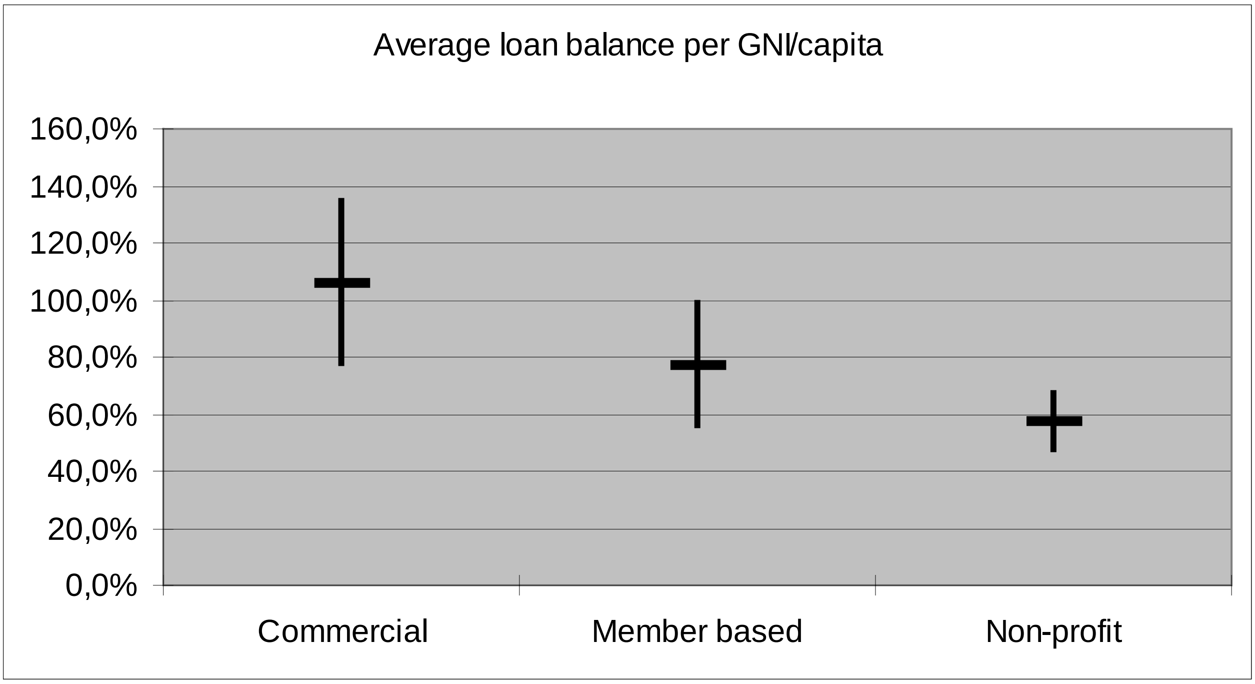

Figure 5. Average loan balance.

Average loan balance	
Commercial MFIs	106.0% (85.9%)
Non-profit MFIs	77.5% (58.4%)
Member Based MFIs	57.6% (91.5%)
F-test value	199
P-value	0.001

Table 7. Average Loan Balance.

See Appendix 8 for calculations. N=301.

The last category, average savings balance per GNI/capita, is shown in Figure 6 and Table 8 together with 95% confidence intervals. The averages are similar to the ones in loan balance but the standard deviations, and thus the 95% confidence intervals, are very different from the loan balance confidence intervals. Most notably, the standard deviation for the mean of the commercial banks is very high (375%), due to skewness towards higher values - the minimum value is less than 1% of GNI per capita, whereas the maximum value is 1858% of GNI. This is clearly visible in the F-test, which - even though the distance between the means is relatively high - is highly insignificant even

on a 10%-level. Thus this data does not support the hypothesis that the institutions perform differently.

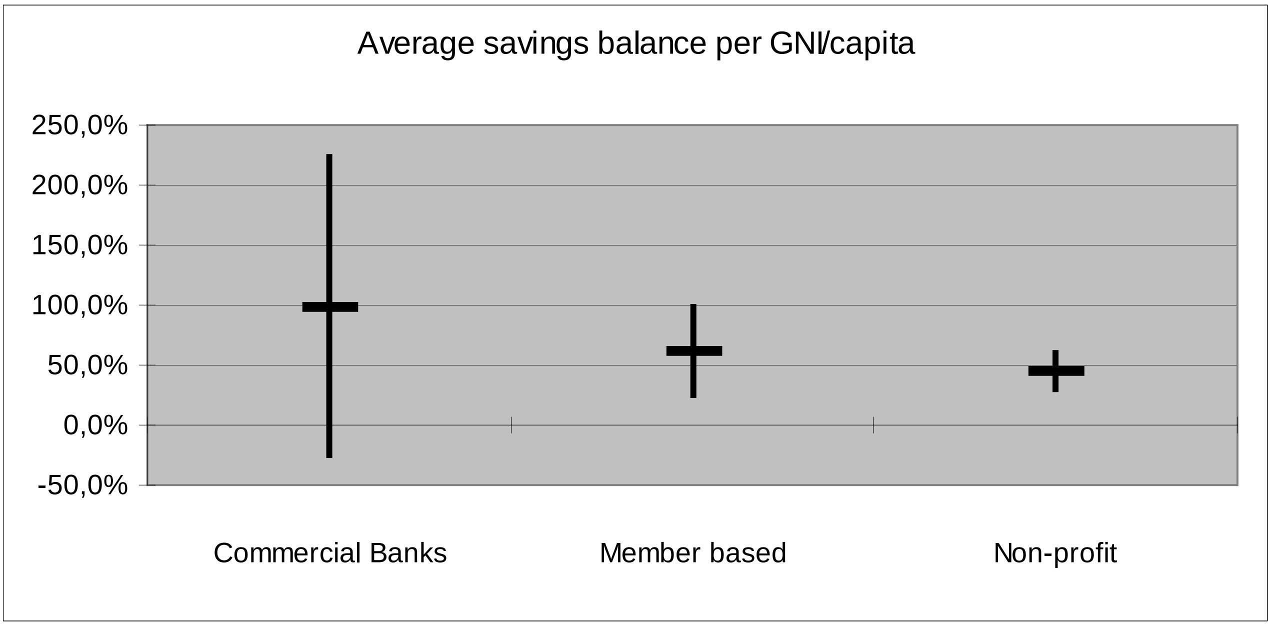

Figure 6. Average saving balance across institution type.

Average savings balance	
Commercial MFIs	98.98% (375.1%)
Non-profit MFIs	45.10% (111.7%)
Member Based MFIs	61.48% (99.6%)
F-test value	1.66
P-value	0.19

Table 8. Average savings balance.

See Appendix 8 for calculations. N=301.

5.6 Preliminary conclusions: Publicness matters

In general, these results are mixed in relation to the expectations. The three hypotheses were:

H1: The degree of publicness affects the performance of the organization.

> H2. Microfinance institutions with a low degree of publicness have better financial performance compared to organizations with a high degree of publicness.

> H3. Microfinance institutions with a high degree of publicness have a better social performance than organizations with a low degree of publicness.

With regard to the first hypothesis, the evidence on financial performance suggested that this hypothesis should be rejected. Less public organizations do not seem to perform better than more public institutions in the field of microfinance. On the other hand, some of the evidence on social performance - specifically the evidence on loan balance - suggests a difference in performance. The non-profit MFIs give out smaller loans than their commercial counterparts, leading to the conclusion that they serve poorer customers. It could seem that this supports both the generic and the core approach: Whether or not publicness matters depends on which variable you look at. However, the fact that publicness sometimes matters shows that the discussion is far from irrelevant, as the generic approach seems to suggest. Thus I conclude that, in favor of the core approach, publicness matters and should be included when studying organizational performance.

In a more clear fashion, the results do not support the second hypothesis. Theory predicted that commercial institutions would perform better financially, but I found that the organizations had similar financial performance. These results were statistically significant. Thus hypothesis H2 can be rejected.

Interestingly, the third hypothesis is supported in the data. The non-profit and the member based MFIs give smaller loans than the commercial MFIs, which suggests that they also lend to poorer customers.

Taken together, a number of substantive conclusions can be drawn at this point. The results highlight the usefulness of "bringing the public organizations back in," as argued in section 4.1. Organizations indeed do matter to the results, and they constitute a necessary unit of analysis. Furthermore, the degree of publicness matters too: More public microfinance institutions tend to have a superior social performance compared to their commercial counterparts. Theory did suggest this to be the case, as noted in section 4.4.3, but it was also expected that this would happen at the expense of financial performance: More public organizations were expected simply to have different priorities and thus to prefer social to financial performance. However, this latter point is

not backed by the evidence: If all subsidies are subtracted, as they are in the measure I use for financial performance, MFIs with a higher degree of publicness do not perform any worse than their commercial counterparts.

This raises several questions for my qualitative analysis. Apart from testing the descriptive results from the numbers above, the reasons for this puzzle needs to be dealt with. These questions are explained at the end of this chapter, section 5.8. Before doing that, though, some possible errors in the quantitative analysis should be considered.

5.7 Shortcomings in the quantitative analysis

There are several criticisms which must be kept in mind when drawing conclusions on the basis of these quantitative results. The general idea that correlation is not causality was treated in section 3.1 on methodology, and this shortcoming is the reason for my qualitative analysis. Here, however, a couple of other criticisms will be discussed.

One concern could be that the model is misspecified. It is possible I have omitted one or more variables that are relevant to performance (Gujarati 2003: 510), and this would lead to bias and inefficiency in the variables. The nature of the contracts used by the institution, as mentioned by the contractual rationalist approach, and institution size and age are examples of some variable that may be relevant. A first step to overcome this would be to do linear regression instead of merely comparing means. However, the ambition in this data-analysis is to reach an indication of whether or not they are connected, not to actually prove this - a plausibility probe as noted by (Eckstein 1975: 109). The present data seems appropriate for that. Furthermore, the data does not enable me to do regression analysis.

Another concern is the risk of a spurious relationship: The case that there might be a third variable, which affects both the ownership structure and also the output. One objection to this concern is that ownership structure rarely changes, and thus it is unlikely to be affected by a third variable. In line with path dependency in historical institutionalism, ownership is difficult to change because changing it involves a number of costs, e.g. for registration, organizational change and learning (Jensen 2003: 36). Along the same lines, the ideas behind the institutions are very important - a common focus for historical institutionalists (Hall and Taylor 1996: 938). Thus a spurious variable could be the creators of the institutions and their ideas. Socially minded people might have a preference for poverty outreach and for non-profit type organization, whereas bankers might prefer richer clients and a commercial institutional setup. An important point is that the

evidence above does not allow for the conclusion that poverty-focused founders choose non-profit type institutions because their social goals do not allow them to create a financially well-performing institution - e.g. with the argument that it is unethical to make money on the poor (CGAP and Rosenberg 2002: 11). From the numbers, non-profit MFIs are just as financially well-performing as commercial ones.

Many of these concerns will be dealt with in the qualitative analysis, so in order to connect the two analyses, I elaborate on the specific questions in the next section.

5.8 Questions for the qualitative analysis

As noted, the quantitative results leave a number of questions open, which can be answered through a qualitative analysis, where I will use interview data from three case institutions as well as from key actors in the microfinance sector in Benin. In this section, I outline the specific questions, which should be answered through the qualitative analysis.

The findings in the quantitative analysis contradict the theory on public organizations. Publicness does not seem to matter to financial performance: Commercial microfinance instituions does not perform better than more public ones. This, however, does not necessarily mean that I should reject the theory. As Lakatos notes, there are two other options: Rejecting the evidence as wrong or extending the theory to contain the new evidence (Lakatos 1970: 118). One task in the qualitative analysis is to figure out which of these choices is most appropriate for this research project. This task relates to the first two sub-questions in Chapter 1: Describing and explaining the connection between publicness and performance.

Apart from that, the qualitative analysis will shed light on the background for these findings: What mechanisms are important for the performance of the institutions? How does the connection between publicness and performance work on the ground? The quantitative analysis has shown that this is by no means a simple question, and that more thorough analysis is needed.

The results from both the quantitative and the qualitative analyses will be combined in the final conclusion in Chapter 7.

Chapter 6. Qualitative analysis

Above, I have looked at how publicness matters to performance in microfinance institutions worldwide. I found that in terms of financial performance, commercial institutions are not performing any better than the more public ones. On the other hand, more public institutions are performing better on social measures. As mentioned in the previous section, I will do a qualitative analysis to understand the causal mechanisms behind these results, and to generate knowledge of how publicness works in context. The starting point is still publicness, as defined in Chapter 4 as the degree of formal political authority which influences the organizations. The difference between the two analyses is that the qualitative analysis enables me to operationalize this broader than what was the case in the quantitative analysis, where the 'charter type' was used as a proxy. Instead of taking for granted that the formal structures works in a certain way and have actually generated the measured results, I can look at how the political authority is exercised in context. This is done by looking at ownership and funding in interaction with a number of other variables and as a part of a larger framework. Moreover, the publicness variable can be determined for each case, giving the case studies higher validity than what was the case in the quantitative analysis. In this way, the independent variable - publicness - is the same as in the quantitative analysis, but the operationalization and the way it is analyzed is different and thus complements the operationalization of publicness in the quantitative analysis.[44]

To do this, I will conduct a structured, focused comparison of the three case institutions. To structure the comparison, I outline a framework for analysis. The approach in this chapter is inductive in nature, but, as Bryman notes, inductive approaches often contains elements of deduction (Bryman 2001: 10) and that is also the case here. Thus, I will use theory to outline a number of categories for analysis, which will be supplemented with categories stemming from the data.

6.1 Framework for qualitative analysis

The basis of the comparison of the cases is a framework inspired by three different sources: From a theoretical framework on publicness developed by Rainey Backoff et. al. (1976), from the codes, which has emerged from working with the data, and from my definition of publicness, the latter contributing the two key variables of ownership and funding. The purpose of the framework is to

[44] Complementing qualitative and quantitative approaches was described in section 3.2.

enable knowledge generation on factors relevant to the publicness of the institutions. Because of the focus on public/private differences, I use the concepts developed by Rainey, Backoff et. al. (1976). They review a large body of research on the public/private distinction and develop three categories that they find especially relevant when looking at the distinction between private and public: Environmental factors, Organizations-Environment transactions and Internal structures and processes.[45] Much has changed in the public/private discussion since 1976, but Rainey reviewed the framework in 2003, and did not find reasons to change the basic rationale: "Basic points of contention have not changed," was his only comment (Rainey 2003: 74).

The framework is used only heuristically and other categories could have generated a similar kind of knowledge. As with any heuristic, matching particular empirics with one category rather another is a matter of interpretation. In the non-profit MFI case, findings about political influence together with the institution's responses to these pressures are labeled as environmental variables, even though the responses relate to internal structure of the organization. The framework is presented in the following sections.

6.1.1 Environmental factors

There is widespread recognition that the environment is a source of political authority which affects organizations, and thus it is natural to look at whether public and private organizations are subject to different pressures and constraints from their respective environments. The starting point for scholars looking at environmental factors is often that context matters, or that organizational choices and actions can be derived from characteristics of their environments. From this perspective, it could seem as if ownership and funding are in opposition to looking at environment, because these are more internal variables. This is not the case. Even in the classic environmental perspective, the resource dependency framework, it is acknowledged that the influence of the organizational environment stem from attention and interpretations coming from the organization itself (Pfeffer and Salancik 2003 [1978]: 13). Thus organizations can influence their environment, e.g. by obtaining information from different parts of it and interacting with the parts they are interested in. Specifically, ownership might determine how organizations get access to or deal with their environment.

[45] Rainey, Backoff et. al. (1976) also suggest 12 sub-categories. I use these where I find it appropriate.

Legal framework

The legal framework is a part of the environment. Rainey, Backoff et al. uses the term "legal constraints" to describe legal factors that matter to both public and private organizations. Their point is that public organizations often are more constrained by the law than are private organizations. For my purpose, though, it makes more sense to talk about the "legal framework." One reason for this is that microfinance institutions are not as heavily constrained or controlled by law as some other public organizations, for example ministries or genuine public agencies that can have their entire purpose and structure defined by law. At the same time, microfinance institutions are subject to more regulation than ordinary businesses and - perhaps more importantly for my endeavor here - there is a difference in the relevant legislative framework of public vs. private institutions. Another reason is that it is clear from the cases which follow that the law not only works as a constraint but also enables the institutions to act in various areas. For example, the member based institutions can raise savings and, together with the non-profit MFIs, they have a tax exempt status.

Political influence

Political influence is thought to matter more for public organizations than for private organizations. This works both formally, by law, and informally, where politicians and government officials can influence the organizations to a varying degree. In contrast to the more general concept of political authority, political influence refers to the direct influence from politicians. A particular reason for including this variable in the framework is the possible existence of neo-patrimonial governance structures as discussed in section 6.2 below. In this way I take the special developing world context into account.

6.1.2 Organization-environment transactions

The most notable organization-environment transaction, which is relevant here, is the funding of the microfinance institutions. Other variables could be labeled as organization-environment transactions, like taxation, but I chose to label this as the environment because of the connection to legislation.

Funding

Funding is included because it is one of the core variables in my initial definition of publicness. Through the interviews, I look at the actors' views on different sources of funding. By doing this, I

get an idea of the meanings and perceived advantages and disadvantages the institutions attach to the different types of funding, instead of just looking at the transactions.

In all three cases, the majority of funding comes from the interest rate charged on the loans, that is, from the market. But all the institutions also rely on some kind of external funding, mostly indirectly. Examples include subsidized credit lines from social investors, technical assistance and posting of staff. I count all this as funding because it affects the income necessary for the institution to survive.

6.1.3 Internal structures and processes

Moving from the outside to the inside, there are a number of characteristics which are specific to the public organizations and which relate to the internal structures of the organizations. Ownership is included because it is a part of the definition of publicness and the goals of the orgnaization is emphasized by Rainey, Backoff et. al. (1976).

Ownership

This variable was initially suggested by Wamsley and Zald (1976 [1973]), but is also implicit in the framework of Rainey, Backoff et. al., who uses "Authority relations" (1976: 237). The owners in public organizations are a group of persons or representatives from other organizations that has the ability to make central decisions like closing down the institution or changing its management. Normally, the owners are represented on a board. The owners might intervene in the management and daily live of the organization in many different ways and at different levels and thus governance can affect institutions differently.

Goals

Perhaps the most commonly cited difference between public and private organizations are their goals. One aspect is that operational efficiency is downplayed in public organizations compared to other goals (Rainey, Backoff et al. 1976: 240). Specifically in microfinance, less public institutions might differ simply because they have different goals than the more public ones and therefore I have to look at this in the analysis. Furthermore, if ownership structure affects the goals and the goals in turn affect the output, this could explain the counter intuitive results from my statistical analysis. However, the interplay between goals and performance is likely to be complex, so I will be open to different interpretations when doing the analysis.

I divide the question of goals into three parts: First, I look at the formal goals of the MFI using official presentation brochures from the MFIs. Second, I supplement this through interviews, which also provide information on the background for these goals. Finally, I look at how the actual performance matches the goals. This latter part should not be taken as a test of the hypotheses used in the quantitative analysis, because I deal only with three cases. The performance is reported simply to compare this to the stated goals.

6.2 Introduction to Benin and microfinance

Before moving forward, I will introduce the context of the three case studies, which is Benin in West Africa. Benin is one of the poorest countries in the world with a GNI per capita of 1100 USD (adjusted for PPP). Life expectancy and literacy is low, making Benin number 163 out of 177 on UN's Human Development Index (UN 2006a). Benin is a member of the West Africa Monetary Union (Union Monétaire Ouest Africaine, UMOA) together with eight francophone West African countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, and Togo. Monetary policy, currency and trading regulations are controlled through the common central bank, located in Senegal, Banque Centrale des Etats de l'Afrique de l'Ouest, BCEAO. All countries uses the Franc CFA, which is pegged to the Euro at 655.5 FCFA = 1 EUR and convertibility is guaranteed by the French Treasury. BCEAO and the regional Banking Commission oversee all financial intermediaries in the UMOA zone, including microfinance institutions (Ouattara 2003: 23). The PARMEC law, which regulates the microfinance sector, was created by the BCEAO and integrated into national legislation by the member states, in Benin in 1997 (Government of Benin 1998).

The economic situation in Benin is generally not very good, compared to five years ago (World Bank 2006). The economy of Benin is highly dependent on two things: Trade with its near neighbors and cotton production (UM 2007). The economic downturn is due to a ban on some imports from Nigeria as well as a general downturn in the cotton business (CIA 2007), and this is likely to have affected the microfinance sector in general. Moreover, some interview persons noted that the very developed microfinance sector has generated over-indebtedness in its main clienteles. For the purpose here, however, an important point is that all the three institutions have the same economic environment.

Finally, when studying public administration in Africa, one should be aware of the general differences in administrative history and tradition compared to e.g. Western Europe. One such

difference is the existence of neo-patrimonial structures, where the governing regime is built on a system of political patronage (Bratton and Van de Walle 1994; Médard 1997). Whereas personal relationships matter in all political systems, in Africa they are thought to "constitute the foundation and superstructure of political institutions" (Bratton and Van de Walle 1994: 459). Public administration is different in this environment, so I take it into account when discussing political authority. For example, it should not be surprising if there is a relatively high level of (attempted) direct political influence toward the MFI, and I include this as one of the variable I look at.

6.2.1 Microfinance in Benin

Microfinance is different in different places around the world, and Beninese microfinance has certain special characteristics. The purpose of this section is take into account some of the factors, which are special to Benin compared to other countries and regions in order to make the use of this research easier to people who work with microfinance elsewhere. Though I do not treat country as a separate variable, it is still important highlight some of the obvious differences.

Apart from informal financial providers like money lenders and *tontines*,[46] Beninese microfinance originated in the member based institutions, which worked as savings institutions and provided rural credit (Chao-Béroff, Cao et al. 2000: 8). This type of institution dominated the microfinance scene in all of West Africa until the late 1980s, and primacy of the member based institutions can still be seen in the PARMEC law or the Beninese law which implemented it in Benin, which simply distinguishes between the member based MFIs and the rest (Government of Benin 1998). FECECAM, which is still the largest MFI with over 600,000 clients, belongs to this tradition.

In the last 15 years a number of other large microfinance institutions have developed, primarily focused on providing credit. Although some smaller MFIs do offer savings, insurance and money transfer, these have only a limited number of clients, probably below 10,000 in total, whereas the four large institutions, FINADEV, VITAL FINANCE, PADME and PAPME had 54,000 clients altogether in 2004.[47] These four large organizations target the not-so-poor parts of the population, primarily in urban areas and the average loan is 265% of GNI per capita,[48] which is way

[46] Similar to rotating savings and credit associations, where members of the tontines pay a fixed amount each week or month and receive the total amount once every pay cycle (Gueye 1996)
[47] 2004 is the most recent year where all figures are available. Numbers taken from www.mixmarket.org.
[48] Data from www.mixmarket.org, weighted averages after size.

above the average for African microfinance institutions, which is a loan size of 89% of GNI (Lafourcade, Isern et al. 2005: 6).

The regional PARMEC law inhibits the institutions from charging more than 27% in effective annual interest rate (Chao-Béroff, Cao et al. 2000: 10). Even though this might seem as a high rate, it is actually is below what many other institutions around the world charge, e.g. BancoSol in Bolivia (60%), FINCA Village Banks (36-48%) and BRI Unit Desa in Indonesia (32-43%) (Hulme and Mosley 1996b: 5, 13) . It is possible that this makes it difficult for the institutions to reach the poorer parts of the population, who often live in rural areas, making loan collection more expensive, and this could explain why microfinance in Benin targets the not so poor clients. A more precise analysis of this, however, is not within the focus of this thesis. As mentioned, the effect of these country-differences will not be considered in detail as all the three cases are from Benin and the focus is on inter-organizational differences. The advantage of this approach is that - as mentioned in Chapter 3 - the country-specific influences affect all the cases equally. A summary of the three case institutions is found in Table 9.

With this general introduction to Benin and its microfinance in place, I now move on with the actual case analyses, starting with the commercial MFI.

	Commercial MFI (COMFI)	Non-profit MFI (PADME)	Member based MFI (FECECAM)
Number of borrowers	14,444	37,661	63,082
Number of savers	0	0	429,536
Average loan balance/borrower (USD)*	$912*	$1,172*	$682*
Average loan balance per borrower/GNI per capita	172%	212%	129%
Average savings balance per borrower/GNI per capita	N/A	N/A	25%
Operational self-sufficiency**	76%	191%	31%

Table 9. Key figures for case institutions. Numbers from 2004 for comparison. Source: mixmarket.org. *Financial exchange rate used. **Used instead of financial self-sufficiency (FSS) because no data on FSS was avaiable.[49]

6.3 *The commercial MFI: COMFI*[50]

6.3.1 Background

The commercial microfinance institution was created as a legal entity in 2001 by COMBANK, one of the major commercial banks in Benin. COMBANK had been doing microfinance since 1998, so the founding of the COMFI was a continuation of earlier efforts and a part of the process of creating an independent and financially sustainable microfinance institution (Planet Rating 2004: 3; Director at COMFI: 257-1689).[51] The investors were and are the International Finance Corporation, the investment arm of the World Bank (25%), The Netherlands Development Finance Company, a development finance company owned by the Dutch government (25%),[52] COMBANK of Benin together with COMBANK Holding (40%) and Horus Development Finance, a French social

[49] This is probably due to confidentiality - as noted in section 5.4 I did not have access to the raw data, so this figure is taken from MixMarket.org. However, the two measures contain the exact same components, most importantly both finance and operating costs. The difference is some adjustments on loan-loss expenses, inflation and subsidized costs of funds (CGAP 2003: 13).

[50] The name of the commercial MFI and the commercial bank who created it is disguised after request from the management of the MFI. COMFI and COMBANK are substitutes for the real name.

[51] The numbers refer to the character position of the coded sections of the interviews and are assigned by the Weft QDA software. The output from here is in Appendix 7, which is organized like the present chapter and starts with lower numbers. The numbers can also be used for localizing the coded sections in the transcripts in Appendix 5.

[52] The Dutch government has 51% of the shares. The rest are held by large Dutch banks and an employer association. http://www.fmo.nl/en/aboutfmo/shareholders.php retrieved February 2007.

investor (10%) (COMFI 2006b). It is noteworthy that this ownership structure has public elements: Whereas it is still the most private of the three, half of its ownership is public to some degree because both the World Bank and the Dutch Government's financial arm refer back to a public, and thus they are public according to the definitions in section 4.2. However, as the other half is private and as the ownership is perfectly transferable, it has more private characteristics than the others. Thus, COMFI does not fit entirely the ideal type for commercial MFIs, which was used in the quantitative analysis, but it comes closest compared to the other two case institutions.

In the beginning, COMFI was connected to the COMBANK and used many of the same finance and information systems as the bank, but it has become more and more autonomous, obtaining its own licence from the Ministry of Finance in 2004 (Director at COMFI: 3816-5527). The institution has until recently experienced large growth figures, but in the last years growth has diminished, probably because of the general economic situation in Benin (Director at COMFI: 5566-6200), and the fact that the MFI is targeting the same segment as a number of other MFIs,[53] that is, the small traders and shopkeepers, primarily in urban areas (Planet Rating 2004: 3).

According to the interview persons, the idea for COMFI came from the non-profit case MFI, PADME. When starting up, PADME used the branches of COMBANK to distribute loans and the two are still organizationally connected with representation on each others boards. However, they are no longer financially connected (Director at COMFI: 3063-3814).

6.3.2 Environmental factors

Legal framework

The most important environmental factor affecting COMFI is the legal framework. The impact of this framework on the MFI is one example of how even commercial institutions are subject to political authority. As mentioned, the PARMEC law, and the Beninese law implementing it, was passed primarily with reference to member based institutions. Other types of institutions are treated in an annex to the law, and are required to obtain a special registration (Government of Benin 1998: 34). This has two important consequences for COMFI: First, there are difficulties in obtaining the registration and, second, as a commercial MFI, the MFI falls under ordinary business regulation and is subject to a 10% commercial tax (Director at COMFI: 3816-5527).

[53] For example PAPME, PADME, Vital Finance and, to a lesser degree, Convergence 2000 and ASSEF (Planet Rating 2004: 3)

The registration is done with the government's regulatory body on microfinance, the Cellule de Microfinance (Microfinance Office), by obtaining an individual license, a *convention cadre* ("framework agreement"). For COMFI, the entire process lasted from 2001 to 2004, and this made it difficult for the institution to start operating (Director at COMFI: 3816-5527).[54] Once obtained, the convention cadre regulated the behavior of the MFI in a number of crucial areas, most notably in not allowing the MFI to raise savings and not allowing refinancing from other MFIs (Planet Rating 2004: 3). Furthermore, the convention has to be renewed every five years.

The difference in the tax regulation is a larger problem, though, and is seen as creating a situation with unfair competition amongst the various types of MFIs:

> *One great difficulty is that because of our status as private, we are taxed at 100% [of our revenues]. In opposition to all our competitors, either the member based or associations, who are for the most part exempted from paying tax. That is something which is a burden to our economy. We have to pay a 10% tax on all our financial revenues, to be transferred to the state. On top of all the other taxes. So, that's something which will perhaps change, I hope, because it is not good for the sector that there is this distortion - it is discouraging (Director at COMFI: 9419-10870).*[55]

The taxation aspect is interesting because it highlights that the legal environment is not necessarily the same for all microfinance institutions. In the case of taxation, there is a clear bias against the commercial institution.[56] This can very well have historical reasons. The regulation was drafted by the BCEAO in Senegal for the entire region, and the most common form of microfinance institution has historically been the member based MFIs (Chao-Béroff, Cao et al. 2000: 8). In Benin, FECECAM was the only large MFI in 1994.

The demand for renewal of the framework agreement every five years is also a problem for the MFI, because this inhibits borrowing funds for long term investments, which in turn is a barrier for on-lending in the long term. As a representative of the sector says:

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[54] On the contrary, the non profit MFI did not report any problems with obtaining the same license (Financial Manager at PADME: 63186-63780).

[55] " une grosse difficulté qu'on a ... qu'il y a, ... notre statut privé, on est fiscalisé à 100%. Au contraire de tous nos concurrents, qui sont soit des associations, soit des mutuelles, qui donc sont exonérés de la plupart des taxes.... Heu.... Donc ça c'est quelque chose qui pèse sur notre économie. On a 10% de taxes sur tous nos revenu financiers, à reverser à l'Etat...qui sont... En plus toutes les autres taxes.... Donc c'est quelque chose qui va peut être évoluer, ... j'espère, parce que ... je pense que c'est pas ça pour le secteur, qui est cette distorsion ... il y a en fait... ça décourage.... "

[56] Besides the fact that taxing on revenue puts a heavy burden on all business, unlike taxing on profits.

> *It is very difficult because when you have an authorization that lasts for five years, you cannot get resources for ten years. [...] And the institutions need long term resources to provide long term credits (Director at Consortium Alafia (1) 2006: 16654-17438).*[57]

This is likely to be a problem because several actors mention the need for long term credit. However, it is not possible from the data to say whether this constraint applies equally to the commercial and to the non-profit MFIs.

The conclusion is that the commercial MFI is negatively affected by political authority through the legal framework.

6.3.3 Organization-Environment transactions

Funding

When looking at the balance of political vs. economic authority, funding turns out to be an important organization-environment transaction for COMFI, especially when seen in a historical perspective.

Presently, the funding comes almost solely from the income on products, that is, from the interest rates charged on loans. In contrast to the other two institutions, the commercial MFI has not received grants. However, the institution benefits from donor funding indirectly, in the form of technical assistance. Specifically, HORUS Development Finance has financed two senior staff as well as supported the information system and the competence development in the institution (Director at COMFI: 8099-8537). This, however, does not change the fact that the institution until recently has been very focused on financial sustainability, and depends first and foremost on the income from its products.

This commercial focus had an impact on its investment history, creating a different need for funding today. Whereas PADME, the non-profit MFI, got donor funding when starting up in the form of grants and from a cheap loan from the government (who in turn borrowed the money from the World Bank), the commercial MFI wanted to prove that it was possible to start an MFI without

[57] C'est très difficile puis que vous n'avez qu'un ...qu'une autorisation d'exercice de cinq ans vous ne pouvez pas avoir des ressources sur dix ans. [...] Les institutions ont besoin de ressources à long terme pour pouvoir également faire du crédit à long terme.

support or donor funding. The consequence has been that many of the necessary investments were not made, and this has become a problem for the institution later:

> *In the beginning, there was too little investment in our information system...the procedures and the like, and thus we have to deal with that now. Because COMBANK wanted to demonstrate that it can be done differently, and that in fact you can see the limits of this approach. (Director at COMFI: 16617-17700).*[58]

These priorities have given the commercial institution a disadvantage relative to the other institutions. Paradoxically, insisting on funding based on economic authority has made the institution less profitable and this is very likely to make it less financially viable in the long run.

Like the other institutions, the commercial MFI has a constant need for funding. Some of it is expected to come from new market segments and the institution is paying close attention to the market and the demand:

> *There is a saturation of the microfinance market. [...] The challenge for microfinance is to find new markets, new clients (Director at COMFI: 9044-9407).*[59]

However, there is a change in the institution's view on subsidies. It does not expect to be able to continue functioning without subsidies. On the contrary, subsidies are seen as necessary for future survival:

> *It's true that presently, subsidies are usually given at the start-up phase. Everybody is used to subsidies in the start-up phase in the microfinance sector. (Director at COMFI: 16617-17700).*[60]

The conclusion is that the institution's view on funding has undergone a change: From a strict focus on financial sustainability to a more relaxed view where subsidies are seen as a necessary addition

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[58] "Au début [...] il y a eu trop peu d'investissement dans notre système informatique ... les procédures etc. donc c'est des choses qu'il faut faire maintenant [...] Parce que COMBANK a voulu démontrer que ça peut se faire autrement...et que en fait on voit les limites de cette approche..."

[59] Il y a la saturation du marché de la micro finance [...] le défi de la micro finance c'est de trouver de nouveaux marchés, de nouvelle clientèle

[60] " Donc c'est vrai que actuellement les subventions sont au démarrage. Et tout le monde est habitué aux subventions de démarrage dans le secteur de la micro finance."

for change. Furthermore, this change seems to have come out of necessity - the institution has simply not been able to cover its costs and thus needs to look for other sources of funding than its own income. This can be seen as a paradox of commercial microfinance: By focusing too much on financial sustainability, investments have been limited and this has lead to a low level of financial sustainability.

6.3.4 Internal structures and processes

Ownership

The ownership structure of the COMFI is the most clear difference when compared to the other case institutions, because of the high degree of economic authority. This is an advantage because it makes the governance structure clear: It is clear who makes the important decisions, and who takes the responsibility for these decisions.

> *The advantage is that we have a clear governance structure. We don't have...influence from the clients when we make a decision, this is an element that complicates things in the member based institutions (Director at COMFI: 6201-6731).*[61]

This advantage is mostly thought of in comparison to the member based institutions, where the clients have some degree of influence in the governance. The clear governance structure makes the stakeholders involved in important decisions in the organization - it makes them take responsibility, but also demand results. This is conceptualized as having 'strong' (*fort* in French) stakeholders.

> *Interviewer: What do you mean by strong?*
> *Interviewee: That means, they are really paying attention. With COMBANK they are there to support us, if it is with refinancing, sometimes if we have a concern, they can...they have a particular attention toward COMFI. Thus they give us good conditions, which are not necessarily very different from what you see with the others, but they are flexible and can support us with their connections. That's one thing. Then, SFI and FMO that's solid*

[61] " L'avantage c'est que on a une structure de gouvernance qui est claire. On n'a pas... d'implication des clients dans les prises de décision, ce une chose qui complique beaucoup les choses pour les institutions mutualistes."

> *shareholders who have demands and who are present at the board of directors. They require us to have professionalism (Director at COMFI: 6732-8100).*[62]

There is thus a double-sidedness of this ownership structure. The stakeholders have competencies which can support the institution, and they pay attention to the institution and their role in the governance. At the same time, the fact that they raise demands is also a motivating factor for the institution to professionalize.

Goals

Another important variable for the commercial MFI is the goal of the institution. What is the stated intention of the institution, and how does it balance the financial and the social goals? I will look at these questions by analyzing, first, the formally stated goal of the MFI and, second, the ways in which these goals are implemented in the formulation of a target group and, third, the outputs.

From the official brochure, the goals and objectives of the commercial MFI are the following:

> *To respond to a variety of financial needs, with a focus on profitability and sustainability. To adopt a long term approach because our customers deserve a reliable partner to give them the loans they need. Thus, COMFI provides broad services in a commercial framework. (COMFI 2006a).*[63]

The focus here is on the output of the institution, not its outcome: The ultimate goal, and the formal focus of the institution is to deliver financial services to someone, not to create change in the surrounding society or to reduce poverty. Behind this is most likely an idea about outcome, e.g. to combat poverty, but this is not mentioned in the stated goal. Apart from the external output, the financial services, the goal also mentions an internal ideal: The institution should be profitable and sustainable. The reasoning for this is contained in the goal statement: The commercial MFI wants to

[62] "Interviewer : Comment fort? C'est-à-dire quoi? Interviewee: C'est-à-dire, ils sont vraiment présents.... Heu.... Avec COMBANK heu ... ils sont là pour nous soutenir, que ce soit pour le refinancement, quelques fois si on a des soucis... ils peuvent heu.... Ils ont... une attention particulière par rapport à COMFI... donc ils nous font des conditions qui sont bonnes.... Qui ne sont pas forcément très différentes de celles qu'ils font à d'autres... mais ils ont la souplesse... heu... et puis ils peuvent nous appuyer par des relations quoi, simplement. Donc ça c'est une chose, SFI et FME, c'est....... C'est aussi des actionnaires solides, qui sont... qui ont des exigences... qui sont... présents au conseil d'administration... qui ... qui nous oblige à rigueur..."

[63] Répondre à des besoins variés de financements, dans une optique de rentabilité et de pérennité. Adopter une approche à long terme parce que nos clients méritent un partenaire fiable pour faire des emprunts tant qu'ils en auront besoin. C'est donc dans ce cadre commercial que COMFI procure des services élargis.

adopt 'a long term approach' and to be a 'reliable partner', and *thus* the commercial framework is needed. The financial sustainability is a core idea for the organization, stemming from the foundation. This is clear from the quote on page 69 above, where the director refers to COMBANKs ideals.

In terms of its goals, the commercial institution follow the institutionist approach, which was mentioned in section 2.2, where focus is on the financial sustainability of the institution, not because the social outcome is not important, but because the institutionist approach is thought to be the only way in which financial services can be extended to all the people in need of financial services.

Following the analysis of the formal goal statement, I will now look at how this is implemented: Who is the target group for the institution and what is the actual output of the institution? The target group for the commercial MFI is not the very poor, but instead the people between the poor and the non-poor:

> *And with a target group effectively in the middle of the market/ intermediary it's not the very poor. From the beginning the idea was to be sort of in the middle of the market (Director at COMFI: 2850-3012).*[64]

For the most part these are merchants trading some kind of goods, and also here, the target is not the very small stall, but the ones in the middle of the market.

> *The target group for us, that's the small traders, it's not the very small, but it's the small traders.*[65] *(Director at COMFI: 12171-12629)*

How does this correspond with the actual output figures? The most central figures are displayed in Table 10.

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[64] ""Et avec... une cible de marché effectivement intermédiaire... ce n'est pas les plus pauvres depuis le début, l'idée c'était d'être un marché un peu intermédiaire."

[65] "La cible pour nous c'est les petites commerçantes, ce n'est pas les tout petits, mais c'est les petites commerçantes."

The commercial MFI (COMFI)

Number of borrowers	14,444
Average loan balance/borrower (USD)*	$912*
Average loan balance per borrower/GNI per capita	172%
Operational self-sufficiency**	76%

Table 10. Key figures for the commercial institution (COMFI). Numbers from 2004 (newest available). Source: mixmarket.org.*Financial exchange rate used. **Used instead of financial self-sufficiency (FSS) because no data on FSS was avaiable. [66]

The limitations of the output figures are discussed in section 5.2. Judging from the output, it seems that the actual target group is close to the intended one. The average loan size is almost double the size of GNI per capita, but it is likely that the borrowers are among the poor anyway, if poverty is defined relatively. This is due to the fact that the commercial MFI operates mainly in urban areas, where the average income is higher than the national average.

A relevant question is whether these figures will change over the coming years. At the time of my interviews there was a decrease in the general economic activity in Benin, and thus all the institutions experienced a financial pressure. Here, the commercial institution was very confident in seeking to find new clients:

> *Most MFIs have the same target groups, these groups of people are already indebted, you cannot really develop your activities with these groups (Director at COMFI: 5566-6200).*[67]

This process of locating new markets says something about the future trends of the organization:

> *The most obvious is to go rural, but we only have 8 branches at the moment, so we have a competitive disadvantage for that. We could do that through partnerships. Maybe going upwards towards the SME.*[68] *(Director at COMFI: 11845-12101)*

[66] This is probably due to confidentiality - as noted in section 5.4 I did not have access to the raw data, so this figure is taken from MixMarket.org. However, the two measures contain the exact same components, most importantly both finance and operating costs. The difference is some adjustments on loan-loss expenses, inflation and subsidized costs of funds (CGAP 2003: 13)

[67] "...des institutions de micro finance... qui sont beaucoup concentrés sur les même cibles de clientèle.... Et donc ... voilà... des clientèles qui sont déjà endettées, on ne peut pas tellement développer des activités chez cette clientèle-là." (Manager at COMFI: 5566-6200)"

[68] Original response in English.

There is a perceived tradeoff between poverty outreach and profitability: Going rural and downwards in the market will not be sustainable because of the need for new branches, whereas going upwards towards the Small and Medium Enterprises is more likely to pay off.

To sum up, the goal of the commercial MFI is primarily to be financially sustainable. In order to reach this goal, the target group is the not-so-poor and the small enterprises. The future trends involve either subsidies or moving upwards in the market.

6.3.5 Summary

The relevant factors found through the qualitative analysis are displayed in the table below.

Commercial MFI (COMFI)	
Environmental factors	
Legal framework	Subject to commercial taxation. Difficulties with registration.
Organization-environmental transactions	
Funding and investment sources	Focus on financial sustainability has led to a low level of initial investments. In the future more open to donor funding.
Internal structures and processes	
Goals	Goals focus on the provided service (output) and sustainability. Has a strong focus on financial sustainbility.
Ownership	Clear ownership structure with strong shareholders.
Background	
Degree of publicness	Low.
History	Established by a commercial bank with inspiration from the non-profit.

6.4 The non-profit MFI: PADME

6.4.1 Background

PADME was founded in 1993 by the Government of Benin with financial and technical support from the World Bank. The Government of Benin agreed to a series of Structural Adjustment

Programs with the International Monetary Fund in the late 1980s and through the 1990s. As was the case with other Structural Adjustment Programs in developing countries, macro-economic loans were made available conditional on certain national policies. An essential condition was fiscal discipline, achieved by cutting public expenditures - a part of the so-called "Washington Consensus" (Williamson 1990). In Benin, this led to thousands of public officials being laid off, and to remedy the social consequences of this, the government started a microfinance project targeted towards this group. With finance from the World Bank (IDA credit No. 3296-BEN), the government started PADME in 1993 (Ouattara 2003: 6; Financial Manager at PADME: 41103-43550). In 1998, PADME was established as an independent microfinance institutions targeting all microentrepreneurs and with a broad spectrum of actors as members of the board.[69]

Following the publicness principle, PADME should be considered semi-public because the actors on the board refer back to different publics who are not represented according to wealth and because their ownership is non-transferable.[70] Moreover, it receives a share of it funding from donors and NGOs, which are affected by political authority. These chains of authority, however, are relatively weak, and the match between the publics which are the bases of the authority, and the public affected by the institution is weak, too. Thus PADME has a medium degree of publicness.

6.4.2 Environmental factors

The legal framework

Compared to the commercial MFI, the non-profit MFI has much fewer direct problems concerning the legal framework. The *convention cadre*, which was an obstacle to the commercial MFI because of difficulties in obtaining it, has not caused any problems for the non-profit MFI (Financial Manager at PADME: 63186-63780).[71] Explanations for this difference could be either the history of the non-profit MFI, being almost ten years older than the commercial MFI, or it could be the relations between the state and the non-profit MFI.

[69] L'Association des Clients du PADME (Clients' association), La Federation Nationale des Artisans (National Federation of Artists), Le Personnel (Staff) PAPME (PAPME, another microfinance institution), Chambre de Commerce et d'Industrie du Bénin (Chamber of Commerce), Financial Bank (Financial Bank, a commercial bank) AfriCare (an American NGO), Ministére Chargé de Plan (Ministry of Planning, representing the government)

[70] In the association of clients, for example, all clients have one vote.

[71] Nous, on a révisé déjà en 2006. On a révisé pour 5 ans. [...] On n'a pas de problème de convention. On a révisé. La première convention est signée en 2001 je crois. Et c'est arrivé à terme, on a révisé. Donc on n'a pas de problème par rapport à ça.

Furthermore, the non-profit MFI has tax exemption due to its formal status as an association, and this has a positive financial impact on the MFI.

Political influence

Political influence turned out to be an important variable in analyzing PADME. Several interview persons expressed concern about the possibilities of political influence on the institution, e.g. politicians who want the institution to focus on their own political constituencies, mostly defined geographically.

These attempts started when the institution was established due to the fact that the institution had a political target group:

> *The first public officials who had come at that time, they had not understood the principle. For them it was: Listen, they told us, there is a fund, which has been established for us, give us our money. They came then, [and said] it is not credit, they demanded the funds, they say, give us our funds. And when somebody explains to them that it is credit, they insult us: Nonsense! It is not like that. Or they resist (Financial Manager at PADME: 41103-44024).*[72]

As the institution has developed this pressure has only grown stronger:

> *They say that PADME, that's a national success. Every minister wants to have PADME in his village. Now us - we are worried about our profitability. We cannot go to all the villages. We have to explain to them in a polite way that it cannot work (Financial Manager at PADME - 64265).* [73]

One instrument which can be used to put pressure on the institution is the tax exemption. Even though the exemption is recognized by the Ministry of Finance and noted in the convention cadre, which is signed with the Microfinance Office (Cellule de Microfinance), it happens that it is used to put pressure on the institution:

[72] Les premiers fonctionnaires qui étaient venus là, ils n'avaient pas compris le principe là. Pour eux c'était... écoutez, on nous a dit : il y a un fond qui est créé pour nous, donnez-nous nos sous. Ils viennent là, ce n'est pas le crédit, ils demandent les fonds, ils disent donnez-nous nos fonds. Et quand on leur explique que c'est un crédit, ils nous... insultent : ces fous là... ce n'est pas ça hein ! Ou bien ils se révoltent.

[73] ...on dit le PADME, c'est un succès national, chaque ministre veut avoir PADME dans son village. Or nous, on a le souci de rentabilité. On ne peut pas aller dans tous les villages. On est obligé de leur expliquer poliment qu'on peut pas travailler.

They can say no, no, no it's over, that thing. What exemption? No, no you know, we do not want it any more. You have to pay the taxes. That's it, you have to pay in your capacity as a good citizen, you have to be an example. That thing, like your texts, your conventions, which you have signed with the previous government that is...us, we will cast doubt on all that. They are in the process of threatening now. But in the convention cadre it is clearly stated that we are exempted, but we say that all that is over (Financial Manager at PADME: 69005-70418).[74]

The tax exemption is a financial advantage, but it makes the institution subject to possible political pressure. The existence of the pressure does not mean that the MFI is actually subject to pressure. In this case, the decentralized decision making structures seem to make the MFI resistant to the pressure. The decentralization matters because the actual credit decisions are not in the hands of the Director General, but in the hands of the individual credit agents:

Interviewee: The minister, he says: Listen, Mr. Director General, you can help me. I have a member of my village...
Interviewer: And what do you say?
Interviewee: The DG says: Ah! OK. We shall investigate, we shall investigate the files...and then he goes looking...and then today, then what? The DG does not have the right to say to the credit agents: Give them those credits. It is the agents themselves who are responsible for the credit. (Financial Manager at PADME: 67287-67739).[75]

The General Director cannot issue an order for someone to obtain credit, because this is not in line with the internal procedures of the institution.

A third party, talking about the non-profit institution, explains:

[74] Ils peuvent dire non que vous avez... non, non, que c'est fini ça. Quel... quelle exonération ? Non, non, vous savez, on ne veut plus.... Vous devez payer les impôts. C'est ça, vous devez payer en tant qu'un bon citoyen, vous devez donner l'exemple. Ça la, même vos textes là, vos conventions que vous avez signées avec les anciens gouvernements c'est... nous, on va remettre tout ça là en cause. Ils sont en train de menacer aujourd'hui. Or dans la convention c'est clairement dit que : nous sommes exonérés tout ça la, on dit que ça là, c'est fini.

[75] Interviewé: [Le ministre,] il dit : écoutez, monsieur le DG, vous pouvez m'aider, j'ai... j'ai un membre de mon village....
Interviewer : et qu'est-ce que vous dites ?
Interviewé: le DG dit : ah ! D'accord, on va étudier... on va étudier le dossier... et puis il va voir... et puis aujourd'hui... ici là c'est quoi ? Le DG n'a même pas le droit de dire aux agents, donnez-leur des crédits. C'est l'agent lui-même là qui est responsable du crédit.

> *I know that at PADME, even if you are an agent or you have an unlimited contract, but you are at the agent level, your salary is determined by your credit portfolio. That means that in their contract, which they have signed, even if it is unlimited, if your portfolio is bad, you get warnings [...] they can fire you. It is part of the terms of the contract (Program Officer at CARE International 2006: 37809-39109).*[76]

Thus, if a credit officer would give out loans for other reasons than her or his belief in the client or the project and the portfolio of this officer would perform badly, which again would have personal consequences for the loan officer. This is central in resisting political pressure.

An aspect of the political influence is the institution's willingness to transform into a commercial entity. As explained, the status as association gives the institution tax exemption, which can sometimes be used to exert political influence over the institution. Thus, changing the formal status of the institution would remove the tax exemption status, but also some of the possibility of political influence.

> *You see, today, when you refuse to provide services for those folks there, they can create problems for you, and say that it's us, it's ours...PADME, that's for us. Thus very soon, we'll have to transform...it is necessary for us to get another structure...to avoid this kind of pressure. (Financial Manager at PADME: 60791-62040).*[77]

This is an example where the political environment affects the ownership preference of the microfinance institution. The incentive to transform into a commercial institution is grounded in a belief in the difference between the two types of institutions. This supports the general idea that (formal) publicness matters.

[76] ... je sais que PADME, même si tu es euh... un agent ou tu es a durée indéterminée, mais si tu es au niveau du poste-crédit... ton salaire c'est déterminé par ton portefeuille de crédit hein. Ça veut dire que dans leur contrat qu'ils signent, même si tu es à durée indéterminée, si ton portefeuille est pourri, tu as des avertissements, tu as des truc... on peut te licencier. Ça fait partie des termes du contrat.

[77] Vous voyez, et... aujourd'hui, quand vous refusez de rendre service à ces gens là, ils peuvent vous créer des problèmes, et dire c'est nous, c'est notre... PADME, c'est pour nous. Donc, très tôt, il faut qu'on transforme... il faut qu'on mette une autre structure pour nous... pour éviter ce genre de pressions quoi.

6.4.3 Organization-Environment transactions

Funding

The funding issue is interesting with regard to the non-profit MFI because the institution receives a large amount of funding through international donors, either as loans with subsidized interests, direct financial support or technical support (Manager at PADME: 27329-28559). This funding has one clear advantage in contrast to other types: It is cheap (Financial Manager at PADME: 73124-73948).

The access to this type of funding comes from connections to a large network of actors both nationally and internationally (Financial Manager at PADME: 2529-3358). The origin of this network is the cooperation with the World Bank and the personal network of the Director General, who is an active participant in international microfinance circles.[78]

> *It's the folks who know our director. There are many officials in Freedom (From Hunger), who have already made interventions with PADME. They have been here to work for the World Bank, while PADME has benefited from support from the World Bank. They have much experience with PADME. And our director here is well known in the microfinance sector. During his travelling, he has discussions...that's where there are lots of talks, meeting each other, there are exchanges. (Financial Manager at PADME: 19900-20484).*[79]

This suggests that access to donor funding might be enhanced by the institution's previous history with donors, and by the participation of key actors, like the Director, in global, and to some extent informal, networks in microfinance. It also suggests that the same people might work with PADME but for different donors. In this specific case, some of the people who have worked with PADME for a long time have changed their employers over the years. Many who currently work for the NGO *Freedom from Hunger* were previously employed by the World Bank. This suggests the existence of a network of people around the MFI. Finally, the donors often know of the institution from elsewhere, e.g. from the Internet (Financial Manager at PADME: 8496-8801).

[78] Among many other things, he was a member of the advisory group of the UN's International Year of Microcredit.
[79] C'est les gens qui connaissent notre directeur,... parce que l'actuel.... Il y a beaucoup de cadres de Freedom là qui ont déjà... qui sont des gens qui ont eu à intervenir déjà au PADME. Ils ont eu à travailler avec la Banque Mondiale. Alors que le PADME a bénéficié des appuis de la Banque Mondiale. Ils ont beaucoup d'expérience.... Par rapport au PADME. Et notre directeur ici est bien connu dans le domaine de la MF. Et lui dans ses voyages, parfois dans les discussions … c'est là où il y a beaucoup de choses qui se négocient, les contacts se voient, il y a des échanges.

Even though donor funding is financially cheap or even free, there might be other implicit costs. One cost is inflexibility. Donors have strict criteria for their funds, and thus the institution cannot decide to move funds from one activity to another:

> *They do give us funds, that's true, but sometimes it seems as if they are writing the law for us. They impose things on us, right. You have to - it's that or nothing. You have to give me a report every month, you have to do this, you have to intervene...thus, it's a little...a little too much...it's a little rigid, right? (Financial Manager at PADME: 73124-73948).* [80]

Another disadvantage of donor funding is that donors require frequent progress reports, which often can be time consuming, in particular because each donor has different criteria for how this reporting should be done (Financial Manager at PADME: 6300-6997).[81]

Finally, it might be that the donor funding is just not effective. This is thought to be the case especially with technical assistance:

> *Sometimes we feel that we could have performed the tasks cheaper, and better, too. Because in the field, when you make a study afterwards, you find out that they haven't contributed with much. Some of them do not contribute with much. When taking a closer look, you see that...they shouldn't just waste our time. When doing it. And perhaps that would be cheaper for us. (Financial Manager at PADME: 76488-76818).*[82]

To sum up, funding in the non-profit MFI is special because of the intense participation of donors. This has advantages and disadvantages. The primary advantage is that this funding is cheap or even free. However, there might be opportunity costs, notably inflexibility, reporting costs and inefficiency.

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[80] Ils nous accordent des fonds, c'est vrai... mais, on voit parfois qu'ils font trop le... comment on appelle... et... c'est comme s'ils nous dictent leur loi quoi. Ils nous imposent des choses quoi. Parce que c'est ça. Vous devez... c'est ça ou rien. Ça la, c'est ça. Vous devez me donner des rapports tous les mois, vous devez faire ceci, vous devez intervenir... donc c'est un peu... c'est trop... c'est un peu rigide quoi.

[81] Il y a un point parfois mensuel ou bien trimestriel. C'est en fonction des besoins du bailleur. C'est soit nous qui faisons le format du rapport ou bien c'est le bailleur même qui définit le format du rapport. Souvent ce qu'on constate c'est que chaque bailleur a des formats spécifiques de rapports. Donc il faut lui faire le reporting périodiquement pour lui faire point de comment ça avance.

[82] Parfois on sent que on pouvait réaliser ces choses là, à moindre coût ici et bien quoi.[...] Parce que sur le terrain, quand ils font les études après, on remarque que, ils n'ont pas apporté grand-chose quoi. Il y en a qui ne nous apportent pas grand-chose. Quand on fait la part des choses on voit que c'est... on pouvait ne pas perdre notre temps quoi. Pour le faire quoi. Et peut être ce serait moins coûteux pour nous.

6.4.4 Internal structures and processes

Ownership

In its convention cadre, the non-profit MFI is recognized as an "association." There is no legislation that regulates associations in microfinance, as there is business regulation for the commercial institution and the PARMEC law that regulates the member based MFI. Thus, the non-profit is somewhat in a grey area, legally speaking (Financial Manager at PADME: 51033-51753)**.**[83] This creates problems when dealing with the rest of the financial system and also in decision making.

In terms of dealing with the rest of the financial system, borrowing funds from the commercial banks is the biggest challenge for the institution, due to the unclear ownership structure. The commercial banks have been involved to finance the growth through the last 5 years, where the MFI has grown from 14,000 to 42,000 clients.[84] Funds have mainly been used for re-lending. The involvement of commercial banks has been risky for the banks:

> *There are also problems with financing for our growth. Today, the majority of the banks tell us, you have an associative structure, that is not a security for us...for the financing. Thus, it is necessary to have a classical form. Apart from that, we tell ourselves that with our level of activity, it is necessary to have a structure that will allow us to go ourselves and raise funds. An association cannot register in the capital market, go and raise funds. You need to have the classic structures. (Financial Manager at PADME: 56575-58998).*[85]

The MFI overcame this apparently because of its performance - the banks lent them money because they trusted the performance to keep the institution profitable, but without knowing what to do if something went wrong, e.g. knowing who would get what in case of a bankruptcy.

> *When we have financing today, it's because we have had activities [...] the banks, they close their eyes to our legal status, because we have profitable and well performing activities [...].*

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[83] This discussion could also be under the 'Environmental factors'-heading, but I list it here because of the connection to ownership.

[84] Source: mixmarket.org. Retrieved January 2007. Exact figures are 14,330 clients in 2000 and 42,350 in 2005.

[85] Donc, il y a toujours ce problèm- là qui est là. Il y a aussi le problème de euh... [Répétition]... du financement... de notre croissance. Aujourd'hui, la plus part des banques nous disent, vous avez une forme associative, ça ne nous garantit pas... vraiment le financement. Donc il faut des formes classiques. Donc, et puis nous, on s'est dit que avec notre niveau d'activité, il faut qu'on ait une forme qui nous permet d'aller nous même mobiliser des ressources. Une association ne peut pas enregistrer sur le marché des capitaux, aller mobiliser des ressources, ou bien.... Donc, il faut des formes classiques.

That makes the banks care much more about our activities than for our legal status. But the day when we will have a small problem, the banks will have problems in explaining themselves. Because a bank who lends 5 billion to an association, that is a risk for them. (Financial Manager at PADME: 56575-58998).[86]

Thus, the unclear ownership structure create problems for refinancing.

The decision making is also made more difficult by the ownership structure. The problem seems to be the relationship between the initial funding and the representative on the Board of Directors (Conseil d'Administration). The only organization which contributed with initial investment was the government, and thus - according to one interview person - the rest have few incentives to make the right decisions.

Those folks are driven by their good will today. When the day comes, perhaps tomorrow, they will have bad will and make decisions that will put the institution in danger...because, what do they risk, generally speaking? They do not risk anything! They don't have their money here, they don't have any capital. (Financial Manager at PADME: 59820-60790).[87]

The right decision making depends solely on their "good will."

In sum, the ownership structure of the non-profit MFI creates difficulties in obtaining commercial financing and it makes the decision making structure unclear.

Goals

According to the official brochures, the goal of the non-profit MFI is:

To give easy and fast access to local financial services for micro enterprises and everybody with low income by offering a broad variety of different financial services, which suit the specific needs of groups who want to develop micro enterprises.

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[86] Si on a des financements aujourd'hui, c'est parce que nous avons eu des activités, notre... nos performances, c'est ça qui fait que les banques, elles ferment les yeux sur, euh... le statut. Notre statut juridique, parce qu'on a des activités... rentables, performantes, c'est tout ça là. Donc, ça fait que les banques se tiennent beaucoup plus à notre activité qu'à notre statut juridique. Mais le jour où il y aura un petit problème, les banques auront des problèmes pour se justifier. Parce que, une banque qui accorde cinq milliards... accorde cinq milliards à une association, c'est un risque pour eux.

[87] Ceux là sont... animés d'une.... De bonnes volontés aujourd'hui. Le jour où, peut être demain, ils seront [Répétition]... animés de mauvaises volontés et prendre des décisions qui vont mettre en péril l'institution. Parce que, qu'est ce qu'ils risquent globalement ? Ils ne risquent rien ! Ils n'ont pas leur fond ici, ils n'ont pas de capitaux.

> *Guaranteeing continuous access to local financial services for a large number of persons with low income while at the same time securing the financial sustainability of the institution (PADME 2006, my translation).*[88]

As with the commercial MFI the focus is on the output, the microfinancial services, and not on the outcome, that is, it does not mention the change, which is supposed to happen in the target group. It does, however, mention the target group, and this is what makes this goal particularly distinctive: The focus is on the microenterprises, not on the poor, broadly speaking.

Through the interview with the manager, it became apparent that there is a special 'poverty-philosophy' behind this goal:

> *...when one speaks about poverty, there are three groups. Amongst the poor, there are the entrepreneurs, there are the workers who are unemployed and finally, there are the incapable. [...] Among the incapable there are the lazy, the sick and the elderly.[..]The task for PADME is to try to provide the necessary financial means for the entrepreneurs who are poor to develop their activities.[...] When the entrepreneurs develop their businesses, they offer jobs to the poor in the second category. [...]. It's an indirect connection (Financial Manager at PADME: 13043-18551) .*[89]

Thus the non-profit is not targeted towards the poor as such, but towards certain groups amongst the poor, namely the entrepreneurs. The reasoning behind this is that it is assumed that a relatively large group of the poor is not capable of starting their own business and some are not able to work at all. These are outside the target group of the non-profit MFI. If this MFI has an impact on the poorest of the poor, it is only indirectly - because the target group, the entrepreneurs, offers jobs to the unemployed poor.

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[88] Rendre l'accès facile et rapide aux services financiers de proximité pour les micro entreprises et toutes les personnes à faible revenu, en offrant une gamme variée et différenciée de services financiers adaptés aux besoins spécifiques de chaque groupe et spécialement au développement de la micro entreprise garantissant un accès durable aux services financiers de proximité à un grand nombre de personnes à faible revenu tout en consolidant la viabilité financière de l'institution.

[89] ...quand on parle de pauvreté ... il y a trois catégories. Parmi les pauvres, il y a les entrepreneurs, ensuite ... heu ...heu...il y a les travailleurs heu...qui sont au chômage et enfin, il y a les incapables. [...] Donc parmi les incapables il y a les paresseux, les malades et les vieux.[...] Alors.... donc le travail que le PADME essaie de faire est de...de fournir aux entrepreneurs qu'il y a parmi les pauvres, les moyens financiers dont ils ont besoin pour développer leurs activités. [...] En développant leurs entreprises, ils offrent des opportunités d'emploi aux pauvres de la deuxième catégorie..[...] C'est une relation indirecte.

The non-profit MFI, then, does *not* have a strong poverty focus, but it does have a stronger poverty focus than the commercial MFI in that it explicitly mentions the target group. Also, even though the micro-entrepreneurs might not be among the poorest of the poor, the ones which are targeted by PADME are nevertheless poorer than the average. Reaching this clientele proves more important than reaching financial goals. This was illustrated in connection to a project in which education was given to borrowers together with credit. The project was done in cooperation with an NGO, Freedom from Hunger, and a disagreement arose as to who should finance the education.

> *But we have said, even though they will not do it, because we have a social mission, if we give education for these groups, we will do it for free.*[90] *(Financial Manager at PADME: 25851-26832)*

Thus, financial sustainability might matter, but in the end, the social performance is a primary concern. The output measures are shown in Table 11.

PADME

Number of borrowers	37,661
Average loan balance/borrower (USD)*	$1172*
Average loan balance per borrower/GNI per capita	212%
Operational self-sufficiency**	191%

Table 11. Key figures for PADME. Numbers from 2004 for comparison. Source: mixmarket.org.*Financial exchange rate used.[91] **Used as a measure for financial self-sufficiency because no data on Financial self-sufficiency was avaiable.[92]

The loan balance of 212% is the highest of the three case institutions. This is somewhat surprising because the non-profit has a medium degree of publicness compared to the other two. Two primary explanations can be given for this: First, the non-profit MFI is also the oldest of the three MFIs. The

[90] Mais nous on s'est dit, même s'ils ne le font pas, comme nous avons une mission sociale, même si on donne des formations à ces groupements on le fait gratuitement.
[91] This is probably due to confidentiality - as noted in section 5.4 I did not have access to the raw data, so this figure is taken from MixMarket.org. However, the two measures contain the exact same components, most importantly both finance and operating costs. The difference is some adjustments on loan-loss expenses, inflation and subsidized costs of funds (CGAP 2003: 13)
[92] This is probably due to confidentiality - as noted in section 5.4 I did not have access to the raw data, so this figure is taken from MixMarket.org. However, the two measures contain the exact same components, most importantly both finance and operating costs. The difference is some adjustments on loan-loss expenses, inflation and subsidized costs of funds (CGAP 2003: 13)

clients who have been borrowers for several years, are likely to have increased their loan balance, and this pushes the average upwards. Another reason is simply that the goal as analyzed above is to serve the less poor clients. It is important to note that this cannot serve as evidence for the general case that non-profit MFIs are less socially oriented. The data from the quantitative analysis clearly shows that, on the average, this is not the case, and PADME is thus a non-typical case. In this case it is more important that its goal is more social than the commercial MFI and that the donors put pressure on the MFI to withhold its social performance.

Finally, a notable feature from the output of the non-profit MFI is that its financial self-sufficiency is 191%, more that 100 percentage point above the second-best, the commercial MFI.

6.4.5 Summary

The relevant factors found through the qualitative analysis were:

Non-profit MFI (PADME)	
Environmental factors	
Legal framework	Tax exemption. Subject to political pressure due to tax exempt status. Transformation into commercial entity considered an advantage for this reason.
Organization-environmental transactions	
Funding and investment sources	Funding comes from a mix of private and public sources. Global network of donors and NGOs give access to cheap funding and technical assistance. Donor involvement makes the MFI more socially oriented.
Internal structures and processes	
Goals	Goals focus on the provided services, the target group and sustainability. Social performance a distinct preference.
Ownership	Unclear ownership structure can lead to difficulties in funding. This is also a reason for the MFI to transform into a commercial entity.
Others	Decentralized decision making is a bulwark against political influence.
Background	
Degree of publicness	Medium. Owned by NGOs, associations and donors.
History	Established by the World Bank as a cushion against social consequences of structural adjustment.

6.5 The member based MFI: FECECAM

6.5.1 Background

Two important differences between the member based MFI, FECECAM, and the other two cases are - apart from its degree of publicness - that the FECECAM operates mainly in the rural areas and that it offers savings. Moreover, the number of savers is over 600,000, making this MFI by far the largest in Benin as well as the largest member based institution in West Africa (Chao-Béroff, Cao et al. 2000: 7).

FECECAM has evolved out of a system of local credit institutions aimed at providing agricultural credit.[93] As a part of the state-owned agricultural production system under the communist president Kerekou, member based banks were created at the local level in 1975-76. The role for these banks was to give credit to state owned cooperative and farms (UNCDF and Adechoubou 2002: 4). These were called either *Caisses Locales de Crédit Agricole Mutuel* (CLCAM) or *Caisses Régionales de Crédit Agricole Mutuel* (CRCAM), depending on the size of the areas. This network was supervised by the national bank for agriculture, *Caisse Nationale de Crédit Agricole* (CNCA). In 1987, poor governance led to the bankruptcy of CNCA, but the breakdown did not lead to the closure of the local member based banks. With the help of donors, the local banks were re-established in 1993 and FECECAM was established as a national centre for the network of local banks. In the 1990's, FECECAM experienced economic crises, probably due to governance problems (CGAP 2006b). FECECAM re-lends capital between the local units, supervises and builds capacity. It is a relevant question whether FECECAM should be considered one microfinance institution or merely a network institution for the 107 local banks. In this thesis I look at it as one institution because of its ability to re-lend capital and the fact that it is registered as one institution both with the Beninese authorities and with the global register, the MixMarket.

When using the three principles for judging publicness as discussed in section 4.2.2, FECECAM corresponds well to the member based MFI ideal type. It has a high degree of publicness judging from all three principles: Its governance structure gives the members influence based on the one-person one-vote system (the publicness principle), the members have direct influence in the credit decisions (the authority principle) and the group that has influence is the same as the group that is affected (the match principle). One difference from the ideal type to the

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[93] The source of this section is UNCDF and Adechoubou (2002).

case is that funding in the ideal type was thought to be mainly private, whereas in the case institution it is indirectly public. This is because the MFI serves a large amount of cotton farmers, who are dependent on the state.[94]

6.5.2 Environmental factors

The legal framework is highly enabling for the member based institution, because this type of institution is the focus of the legislation on microfinance in Benin and West Africa. This, in turn, is likely to be rooted in history of rural finance in the entire West Africa region, because the microfinance legislation was drafted by the regional bank, the BCEAO. The advantages of the legal framework for the member based MFI are that it is allowed to mobilize savings, that it is subject to tax exemptions and that it does not need to register every five years with the Ministry of Finance, as the other two institutions. These factors are likely to contribute positively to the financial performance of the institution.

Apart from the legal framework, the rural focus gives the MFI a number of special characteristics. Most of the rural population consists of farmers who use the services of the member based institution to pay for input for farming, such as seeds and fertilizer. This makes their ability to pay back dependent on harvest output, which again is dependent on a number of conditions, most significantly the weather. This environmental factor increases the institution's risk in lending:

> *Financing agriculture is very risky because you cannot control the rain. In Benin, you can finance a farmer and if the rain does not come and everything is spoiled, how should he find the money to pay you back? (Manager at FECECAM: 9235-10325).*[95]

The rural setting is different in other respects than economically. Socially, there are some important differences that also matter to the member based institution. The communities in which the institution operates tend to be tightly knit, and this affects the ability of the institution to use guarantees as a recovery tool for defaulters:

> *If it is Mr. Ole who has handed over 10 HA of property and he has taken a credit of 5,000,000 and he has not managed to give back the money, then I, the CLCAM [the bank branch], I will*

[94] I will comment further on this below.
[95] Le financement est très risqué et tu finances l'agriculture alors que l'eau n'est pas maîtrisée par exemple au Bénin donc tu finances un paysan et la pluie ne peut pas arriver ça veut dire tout est gâté comment il va trouver l'argent et te rembourser?

> *go and sell the property in the village. Everybody says "I do not want to buy the property of my own brother." At times it is difficult to sell taking into account the sociological environment, but if it is in the city that will work but in the village it is difficult. Because they know each other. [...] Thus, we have difficulties in realizing the collateral sometimes, but in certain circles, with people who are ashamed, I would not like my name to come out saying that I was a bad payer, I would do everything to pay, whereas in other circles people are not ashamed (Manager at FECECAM: 12061-13299).* [96]

The most reliable guarantee is private property, but in the villages, this can be hard to sell because all of the potential buyers will have a relationship to the former owner, and thus do not wish to buy "their brother's land." "Brother" in this case should not be taken literally, but means anyone with a connection to the person, e.g. cousin, uncle or brother-in-law. In a village this could be most of the people living there.[97] This social structure affects the institution in a negative way, because it makes it difficult for the institution to recover defaulted loans.

6.5.3 Organization-Environment transactions

With respect to the member based institution, it makes sense to look at the consequences of the ownership structure as an organization-environment transaction variable because it affects the relationship between the clients and the MFI. The source of political authority in this respect is the clients, who have a double role: They are both a part of the governing body of the institution on various levels and they are the costumers or beneficiaries. Thus, apart from taking loans, the members can vote on the general assembly, and participate in the local governance of the institution if they are elected for a “loans committee” of eight people, which must approve all loans. This has advantages and disadvantages. The advantage, which is emphasized by the MFI itself, is that the members have - or at least are thought to have - the local knowledge necessary to judge whether other members will pay back or not:

[96] C'est Mr Ole qui a remis 10Ha de parcelles et il a pris crédit 5,000,000 il n'est pas arrivé à rendre je dis CLCAM moi je prends, maintenant je dis moi j'irai vendre la parcelle dans le village tous le disent moi je ne veux pas acheter la parcelle de mon frère. des fois c'est difficile à vendre compte du milieu sociologique mais si c'est en ville sa passe mais dans les villages là c'est difficile. parce qu'ils se connaissent pour faire cela même juste pour c'est toi qui est venu acheter mon bien alors que je sui en problème. donc ça c'est pas souvent facile. Donc on a des difficultés pour réaliser les garanties des fois... mais dans certains milieux, les gens ils ont honte, je ne veux même pas que mon nom sorte... que je suis en impayé je fais tout pour payer et dans certains milieu les gens n'ont pas la honte.

[97] Personal experience from the villages in Benin 2006, e.g. Sedje Denou.

> *The elected [...], that's the one who knows the guy in the village, he knows how he produces, how he performs in the local environment, if he can pay back a loan or not, it is he who must say: Aha! He can pay back or Ha! if you give him money he will make up a story - it is he who will say that. Thus, we have the representatives in the local setting who inform us about the morals of the beneficiaries. We have approximately 1300 elected, who are representatives on the level of each unit (Manager at FECECAM 2006: 833-1605).*[98]

Thus there are advantages to the involvement of the borrowers in the governance of the institution. The involvement and the local knowledge of the members, makes it possible for the institution to give out loans to people who would otherwise not receive a loan. This is likely to have a positive effect on the social and financial performance of the institution.

However, there are disadvantages too, which were not mentioned by the institution itself, but were commented on by several others. For example, the director of COMFI, the commercial MFI, mentioned the advantages of being a private entity (page 70) and emphasized the disadvantages from involvement of clients in governance.[99] The idea that this governance structure leads to less effective credit decisions was backed by a representative from the donors:

> *Everybody knows why FECECAM is practically bankrupt. Everybody knows, because the big problem at FECECAM [is] at the level of governance. Because the members are also the beneficiaries. That means...the members have to make decisions, they are members of the board of directors. It's the farmers, it's the producers. Thus, it's the same producers that decide who gets a loan (Program officer at USAID 2006: 22167-23033).*[100]

A representative from the sector confirmed this (Director at Consortium Alafia (1) 2006: 37135-37394). This underscores the potential conflict of interest when the members participate in making

[98] Les élus [...], c'est lui qui connaît le monsieur dans le village il sait comment il produit et comment il se comporte bien dans le milieu si il peut rembourser ou pas c'est à lui de dire ha ! Il peut rembourser, ha non si vous lui donnez l'argent pour prendre la il va nous faire une histoire c'est lui qui va nous dire ça. Donc on a des représentants par localité qui nous renseignent sur la moralité des bénéficiaires. Donc on a jusqu'à 1300 élus... .... qui sont des représentants au niveau de chaque entité.

[99] The advantage is that we have a clear governance structure. We don't have...influence from the clients when we make a decision, this is what complicates things in the member based institutions.

[100] Tout le monde sait pourquoi le FECECAM a... je dirai... a pratiquement fait faillite. Tout le monde sait, parce que le gros du problème de la FECECAM se situait au niveau de la Gouvernance. Puisque, bon, les sociétaires de la FECECAM sont en même temps les bénéficiaires. C'est-à-dire que... oui, puis que les sociétaires... ça veut dire, qu'il faut...prennent les décisions qui sont... les membre du conseil d'administration. C'est des [Répétition] agriculteurs, c'est des producteurs. Donc, c'est ces mêmes producteurs qui décident à qui le crédit doit être octroyé.

the decisions and even though it is difficult to assess the extent to which this takes place, it is likely to affect the performance of the member based institution.

Moreover, the ownership structure created a somewhat difficult environment for local branch managers. In opposition to the non-profit MFI, where managers have a high degree of autonomy, the managers in the member based institution are considerably more constrained. Decisions about hiring or firing staff, for example, had to go through the local board, consisting only of members from the branch (Branch Manager at FECECAM 2006).

Dependent on government through funding

A large share of the farmers are cotton farmers, and since all cotton trade is controlled by the state.[101] they depend on payments from the government. This, in turn, makes the member based institution dependent on the state. Thus a consequence of lending to farmers is that the institution is indirectly dependent on the government. And the government does not always pay the cotton farmers:

> *The cotton producers they have produced cotton in the northern zone. The state has bought from the groups, but they have not been able to pay the producers for two years. It has been necessary for the new government, which has arrived, to start paying. Thus, they owe something at the moment, they owe 14 billions [FCFA - app. 21 million EUR in 2006], which they have not paid. (Manager at FECECAM: 5316-6989).*[102]

This problem is amplified by the general economic decline in Benin. It is interesting to see how the member based institutions conceptualize this situation:

> *At the level of the state, there has been an economic crisis and the State has not been able to pay the suppliers, those who have worked for the state, [who] have done projects for the state. But the state has not been able to pay, and thus they have taken credit from us. If they take*

[101] Here I treat the state and the government as synonymous, representing the relevant public agency in control of the specified task. I do not mean to treat the state as a unified actor.

[102] ...les producteurs de coton, ils ont produits le coton dans la zone nord. L'Etat a acheté par le biais des groupements mais ils n'ont pas pu payer les fournisseurs depuis deux ans. Il a fallu le nouveau gouvernement qui est arrivé pour commencer par payer. Donc tous ceux qui doivent pour le présent doivent 14 milliards qu'ils n'ont pas payés.

> *credit with us, and if they are not paid from [the state], then they cannot pay back their loans (Manager at FECECAM: 5316-6989).*[103]

Focus here is on the state. The economic crises affects the institution because it has turned into economic problems for the state and the governments. The primary economic environment for the member based institution is the market, but this market depends so much on the state that it is reasonable to say that the state is the *de facto* environment for the member based MFI. The institution does react to changes in the market, but it reacts mostly to changes in the state economy and governance. In terms of publicness, this gives the institution a status similar to a government contractor, and thus it is more public than its ownership immediately suggests.

Savings as funding

In terms of funding, the member based institution has a clear advantage in its ability to raise savings from the general public. This is grounded partly in history, partly in the legal framework: FECECAM has accepted savings since its inception in the mid 1970's, whereas the other case institutions were initiated to support entrepreneurs and thus focus on credit.[104] The legal framework makes it easier for member based institutions to raise savings; whereas other institutional forms sign an individual five-year *convention cadre* in order to accept savings. The institution itself emphasizes the savings as a source of funds:

> *For these funds, it is the savers who come and deposit their funds, then when the costumers come and deposit, that is when we can give credit. And later we take a little loan with the state or with the banks in order to be able to continue. Thus, for the operations, it is ourselves internally. In the past we have had donors, but from 2000 onwards, that has stopped. We work on the basis of our internal resources. Yes, also salaries and all, that's ourselves, it is not like the others who have large donors behind them...PADME, PAPME have donors like the World Bank and all that. Us, we are finished with that (Manager at FECECAM 2006: 17671-18870).*[105]

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[103] Au niveau de l'Etat il y a eu crise économique et l'Etat n'arrivait plus à payer les fournisseurs. Ceux qui ont travaillé pour l'Etat, ils ont fait des projets pour l'Etat. Mais l'Etat n'est pas arrivé à les payer, alors qu'ils ont pris crédits chez nous. Si ils prennent crédit chez nous, et qu'ils ne sont pas payés par là bas, ils ne peuvent pas rembourser.

[104] PADME was initiated to create employment amongst a specific group of laid off public workers. The commercial institution was created as a copy of PADME - see relevant chapters.

[105] Pour les ressources là, c'est les épargneurs qui viennent déposer. lors que les clients viennent déposer, c'est cas-là dans ça là que nous on fait le crédit . Et après on fait un peu d'emprunts auprès de l'Etat ou auprès des banques pour pouvoir continuer. Donc pour le fonctionnement, ça c'est pratiquement nous même à l'intérieur, on n'a pas ... par le

This source of capital is likely to be significantly cheaper than commercial sources like the commercial banks, which lend at 10% annual interest. As a representative of a large NGO put it:

> *I take the case of FECECAM. [...] FECECAM collects savings, locally, which is not very expensive, it is 3%. (Program Officer at CARE International 2006: 37921-38084).*[106]

Thus the ownership structure and the fact that the legislation is favorable to this ownership type, give access to this form of finance.

Mobilizing savings as a funding source gives the institution a different relation to the state administration:

> *The state guarantees the security of the savings from the entire public. Thus, when we do not have a report, they say that they will look carefully at us. When they have done that, they give us the funds. Thus, they say they will finance the network [FECECAM] to see how...it's normal, because if FECECAM falls, that will affect the other MFIs, the banks and then the state has problems (Manager at FECECAM 2006: 24975-25578).*[107]

Thus, the state guarantees the savings deposits from the public and the state is conscious that the member based MFI is an important part of the Beninese economy.

6.5.4 Internal structures and processes

Goal

The goal of FECECAM differs from the two other MFIs. In the official brochure it is stated that the goal is:

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passé on avait des bailleurs, mais depuis 2000, c'est fini. C'est sur les ressources internes de la FECECAM qu'on travaille. Ah oui salaire et tout ça là c'est sur nous.... c'est pas comme d'autres qui ont de gros bailleurs derrière.... les PAPME, PADME ont des bailleurs comme la Banque Mondiale tout ça..... Nous on a fini avec tout ça.

[106] La FECECAM collecte de l'épargne... locale, qui ne coûte pas trop cher, c'est 3%.

[107] L'état est garant de la sécurité des dépôts de tout le public. Donc lorsqu'on a pas le rapport, ils disent ah nous voulons encore voir clair. Et quand ils y voient clair, ils mettent les moyens. Donc ils disent je vais financer le réseau pour voir ce qui ...c'est normal hein, puisque si FECECAM tombe ça va toucher aussi les autres IMF, les Banques, donc l'état a des problèmes.

> *To offer financial services to rural and urban populations in order to improve their living standards, while at the same time ensuring the sustainability of the network (FECECAM 2006).*[108]

Like the goal statements from the other two MFIs, the member based institution mentions sustainability. However, it also mentions the outcome: The improvement in living standards of the members. In this way it is different from the other two, who only mentioned the output: the provision of financial services. Moreover, the rural population, which is poorer than the country average, is specifically mentioned. In terms of the goal statement, the institution can be considered more socially oriented, compared to the other two cases.

This is confirmed in the interviews:

> *Thus, the folks [the other MFIs] prefer to work with the traders. The traders buy and they resell, that's it, but us, we say that if you want to develop this country, you have to develop the agriculture. And besides, there is food, there is lots of value to create, and they should notice that abroad in order to get more foreign currency, but if you buy only tropical products and resell them, that will not add anything to the Benin economy. You buy sugar and you resell it, all the money will go out [of the country], but if it is corn produced in a village, bought and resold, that will do more for the areas (Manager at FECECAM 2006: 9235-10325).*[109]

The member based MFI distances itself from the others by focusing on agriculture and by having a clear social goal. One reason for the focus on agriculture is that the trading of local agricultural products is thought to benefit local populations more than trading with foreign goods. Another reason is a wish to contribute to the overall development of the country. The traders, who are the focus of the other MFIs, do not - in the opinion of the member based institution - contribute to Benin's economy, which is an important goal for the member based institution. The focus on the economy as a whole is not reflected in the official goal statement, where the focus was solely on the clients and the improvement in living standards for the clients. On the other hand, it fits with the

[108] Offrir aux populations rurales et urbaines des services financiers afin d'améliorer leurs conditions de vie tout en assurant la pérennité du réseau.
[109] Donc, les gens préfèrent faire pour les commerçants. le commerçant achète et il le revend c'est fini mais nous on dit si il faut développer ce pays il faut développer aussi l'agriculture, plus il y la nourriture il y a plein de richesse créer et on peu voir ça à l'extérieur pour avoir plus de devise mais si tu doit acheter seulement les produits tropicaux et les revendre cela n'apporte rien à l'économie du Bénin. Ah oui on achète le sucre on revend tous l'argent reparte au dehors mais si c'est du maïs produit dans un village acheté et revendu cela fait un plus pour la localité.

finding above that FECECAM is connected to the state apparatus: It is dependent on the state in terms of funding, and its goal is to contribute to the entire economy of Benin - something which is normally the responsibility of the government.

How does this correspond with the actual key figures? The most central figures are displayed in Table 12.

FECECAM

Number of borrowers	63,082
Number of savers	429,536
Average loan balance/borrower (USD)*	682
Average loan balance per borrower/GNI per capita	129%
Average savings balance per borrower/GNI per capita	25%
Operational self-sufficiency**	31%

Table 12. Key figures for FECECAM. Numbers from 2004 (newest available). Source: mixmarket.org.*Financial exchange rate used. **Used as a measure for financial self-sufficiency because no data on Financial self-sufficiency was avaiable.[110]

As with the data for the other institutions, the limitations of the output figures are discussed in section 5.2. Compared to the other two institutions, the member based institution lends out comparable but lower amounts, indicating that it also serves somewhat poorer clients. On the savings side the level is even lower, the average savings amount being only 25% of the GNI per capita, or more than 100 percentage points lower than the other MFIs' average lending. This points to the fact that the savings and the lending business in the institution are serving different segments, a claim backed by the number of savers, which is around seven times as large as the number of borrowers. FECECAM has a strong poverty focus, but it is primarily in its savings business.

[110] This is probably due to confidentiality - as noted in section 5.4 I did not have access to the raw data, so this figure is taken from MixMarket.org. However, the two measures contain the exact same components, most importantly both finance and operating costs. The difference is some adjustments on loan-loss expenses, inflation and subsidized costs of funds (CGAP 2003: 13)

6.5.5 Summary

The relevant factors found through the qualitative analysis are displayed in the table below.

Member Based MFI (FECECAM)	
Environmental factors	
Legal framework	Legal framework enables performance. Can mobilize savings.
Others	Rural client base makes revenue sensitive to weather and other agricultural risks. Social connections in rural villages makes loan recovery difficult.
Organization-environmental transactions	
Funding and investment sources	Funding comes from a mix of public and private sources. Revenue is indirectly dependent on government, due to loans to farmers producing for the state.
Savings as funding	Savings is a cheap source of funding. Other MFIs are affected by the performance of FECECAM.
Internal structures and processes	
Goals	Goals focus on poverty reduction (outcome), impact on the national economy and sustainability. Activities focused on rural areas and farming due to the social goal. Large difference in savings and lending size. Savings is the most poverty-focused activity.
Ownership	Double role of borrowers because of influence on credit decisions. Provides local knowledge but bad for performance.
Background	
Degree of publicness	High. Owned by members. Revenue indirectly dependent on the state.
History	A network of rural credit cooperatives. Previously owned and controlled by the government.

6.6 Conclusions on the qualitative analysis

In this section I sum up the conclusions from the qualitative analysis. In the final conclusions, which follow in next chapter, these finding with be related to those from the quantitative analysis.

First of all, I was able to identify the level of publicness of each of the institutions. The commercial MFI was a little more public than the ideal type because of its ownership structure, and so was the member based MFI, due to the larger share of farmers in its customer base; farmers are

dependent on the state because the state purchases cotton and has not paid the producers for two years. The publicness of the case institutions is show in Figure 7.[111]

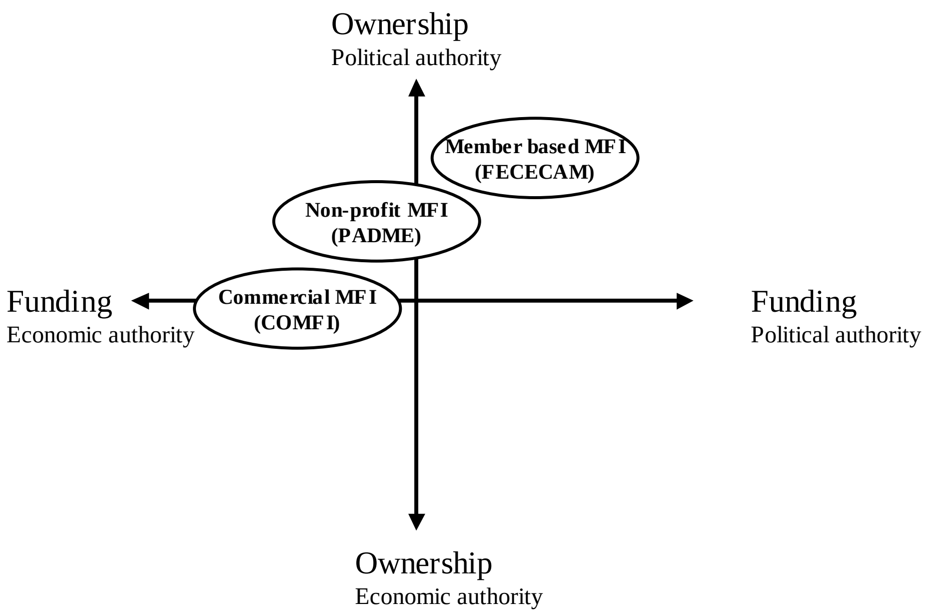

Figure 7. Degree of publicness in cases

Moreover, the qualitative analysis identified four mechanisms that are particularly important as sources of political authority: The legal framework, funding and investment sources, ownership structure, and goals. The findings are summed up in Table 13.

Concerning the legal framework, it was striking that even though all the institutions are microfinance institutions located in Benin, there was a significant difference in the way the legal framework affected them. The commercial MFI had troubles with registration and is subject to a 10% commercial tax. The non-profit MFI had tax exemption, but this in turn led to political pressure. The member based MFI was the only one which did not experience problems with the legal framework. This is likely to have affected the financial performance of the two former cases, but since the non-profit MFI was able to withstand the political pressure, it was the commercial MFI which was most negatively affected. This bias in legislation has historical roots, because the member based MFIs were the dominating structures when the current law was drafted (Chao-

[111] As noted in section 4.2.2, the degree of publicness depends on the sources of authority, which goes beyond ownership and funding. Examples include political influence toward PADME and state guarantee of savings in FECECAM, both of which contribute to the degree of publicness, outside the categories of ownership and funding.

Béroff, Cao et al. 2000: 8). Using concepts from historical institutionalism (Hall and Taylor 1996), this trajectory suggests a strong path dependency in legislation where the initial policy formulation represented a critical juncture, in which the legislation was formed in a way preferential to some actors above others. Thus, the socio-political context at one point in time creates a path that limits the possibilities for actors at a later point in time, an observation which also fits the general assumptions in historical institutionalism (Hall and Taylor 1996: 942).

	Commercial MFI (COMFI)	**Non-profit MFI (PADME)**	**Member Based MFI (FECECAM)**
Environmental factors			
Legal framework	Subject to commercial taxation. Difficulties with registration.	Tax exemption. Subject to political pressure due to tax exemption status. Transformation into commercial entity considered an advantage for this reason.	Legal framework enables performance. Can mobilize savings.
Others			Rural client base makes revenue sensitive to weather and other agricultural risks. Social connections in rural villages make loan recovery difficult.
Organization-environmental transactions			
Funding and investment sources	Funding comes primarily from private sources. Focus on financial sustainability has led to a low level of initial investments. The MFI will seek more donor funds in the future.	Funding comes from a mix of private and public sources. Global network of donors and NGOs give access to cheap funding and technical assistance. Donor involvement makes the MFI more socially oriented.	Funding comes from a mix of public and private sources. Revenue is indirectly dependent on government, due to loans to farmers producing for the state. Savings is a cheap funding source.
Others		In the beginning, the borrowers expected the institutions to be a public program, which affected the repayment rate negatively.	
Internal structures and processes			
Ownership	Clear ownership structure with strong shareholders.	Unclear governance structure can lead to difficulties in funding. This is also a reason for the MFI to transform into a commercial entity.	Large difference in savings and lending size. Savings is the most poverty-focused activity.

Goals	Goals focus on the provided service (output) and sustainability.	Goals focus on the provided services, the target group and sustainability.	Goals focus on poverty reduction (outcome), impact on the national economy and sustainability.
Others		Decentralized decision making is a bulwark against political influence.	Double role of borrowers because of influence on credit decisions. Provides local knowledge but bad for performance.
Background			
Degree of publicness	Low. Has 50% international public ownership, but strong commercial values.	Medium. Owned by NGOs, associations and donors.	High. Owned by members. Revenue indirectly dependent on the state.
History	Established by a commercial bank with inspiration from the non-profit.	Established by the World Bank as a cushion against social consequences of structural adjustment.	A network of rural credit cooperatives. Previously owned and controlled by the government.

Table 13. Results from qualitative analysis.

The second mechanism, the funding and investment sources, had a strong impact on the performance of the institutions, especially when viewed in a historical perspective. For the commercial MFI, the most striking result was that the early focus on financial sustainability led to a low level of initial investments, making the need for investments greater today. Concerning the non-profit MFI, the partnerships with donors was a central feature, and thus the funding made it subject to political authority - something the MFI noticed when it had to adjust to donor rules. The political authority, however, worked to strengthen the MFIs social performance because the donors often had a social mission. Funding from donors could be traced to the history of the MFI because it was initiated by the World Bank and got a global network in the microfinance donor community from there. Finally, the member based MFI used savings as a funding source, which was cheap and with little other costs affiliated. Moreover, the revenue generated by the member based institution turned out to be indirectly dependent on the state, because the borrowers were selling primarily to the state. This is likely to have affected the social performance positively in that FECECAM was concerned with the economic development of Benin in general.

The ownership and governance structure of the institution was - as expected - a key source of political authority. One conclusion with regard to this is that ownership can function in many different ways: The translation from formal ownership to authority works differently from one institution to another. The commercial MFI experienced an advantage in having a clear ownership structure structure, compared to the non-profit MFI, which had an unclear and uncertain ownership

structure. Thus, for the non-profit MFI, the ownership structure as 'association' was considered a barrier to raising commercial capital. In the most public case, the member based institution, the political authority from the members was a strong influence in the governance, and the result was that the institution sustained focus on the rural setting, but also experienced problems due to the dual role for members as both holders of authority and customers. This is likely to have affected the social performance positively, but the financial performance negatively.

The goals had interesting consequences for the MFIs, especially when they are considered in interaction with the other variables. This was especially the case regarding the commercial MFI, which had strong commercial values and which since its beginning had been opposed to receiving donor funds. This, interestingly, had resulted in a low level of investments, and to remedy this, the MFI had now changed its opinion and is looking for donor funds. Thus it was not the commercial structure in itself that inhibited the inflow of donor funding, but the values held by the MFI in connection with this structure. Along the same lines, the non-profit MFI had social values in its goals, but also a specific understanding of poverty, which steered its targeting of loans toward the not-so-poor. The member based MFI had the most socially oriented goal, focused on outcome and not, like the other two, output. This strong social focus made it continue doing business in rural areas even though this was perceived as particularly risky, and probably contributed to the low financial performance of 34%.

Finally, a point can be drawn from the data regarding origination of the MFIs and their goals. The MFIs were all affected by a the global spread of microfinance, but this was mediated by copy/pasting of practices by actors in the local setting. The commercial MFI, COMFI, was a bureaucratic copy of the non-profit case, PADME, but with the values the a commercial bank, COMBANK, that started it. Thus, many of the routines and products used first by the non-profit MFI were directly copied by the commercial MFI, but the values were different: The commercial bank prioritized financial sustainability.

The non-profit MFI itself was put in place by the World Bank, which has been a major organizational platform for the norm of entrepreneurs of microfinance (Finnemore and Sikkink 1998: 899), but also here, it was adapted to the specific local setting. In the beginning it was used as a political instrument, but later it developed into an independent MFI, more in line with global standards.[112]

[112] Apart from the copy which became the commercial MFI, another copy was made with the help of USAID - Vital Finance - which is today a thriving MFI targeting the same segment as the non-profit MFI.

The member based MFI existed long before the new microfinance, and got its values from the rural cooperatives in the 1970s. But this MFI has not been untouched by global trends either, and thus many of the changes in the last 10 years reflect the new ideas in global microfinance, for example the focus on credits instead of savings (Chao-Béroff, Cao et al. 2000: 8). These examples illustrate the point that whereas microfinance is by now a global phenomenon, which has spread across the world, this spread is not homogenous. It is manipulated in "the hands of people; each of these people may act in many different ways" and thus they modify the model which is being implemented locally (quote from Latour in Czarniawska, Sevon et al. 2005: 8 and in Røvik 1998:152). The concept of microfinance might be global, but it is implemented locally, and the local setting is not a *tabula rasa*. There is not one model of microfinance but several, and all assume local characteristics once they are implemented.

6.7 Limitations and weaknesses of findings

Before moving on to the final conclusions it is necessary to note a number of weaknesses and limitations in the above quantitative and qualitative analyses. For the quantitative analysis, one weakness was that I did not have access to the primary data, and thus had to rely on secondary analysis of statistics reported by the Mix Market. The findings are thus based on the assumption that the initial calculation, e.g. of standard deviations, were correct. Another consequence of this is that because my theoretical framework is different from the framework used to construct the original statistics, I had to transform the data. This is likely to have made the standard deviations higher than what would have been the case if I had access to the original data, and thus conclusion could have been more robust with the original data.[113] Finally, I assume that the variable I used - the charter types - is a valid representation of the three institutional ideal types that were identified in the theory.

Regarding the qualitative analysis, one weakness is that I only interviewed senior staff of the MFI's, and thus an assumption is that they represent their respective organizations. The opinions expressed in the analysis might be theirs only and might not correspond to the reality in the rest of the organization. Another consequence of this was that I in many cases assumed the connection between the organizational characteristics and performance on the basis of the interviews. If I had chosen to focus on one organization instead of three, I could have made a more thorough analysis

[113] For example, the average savings balance might have been statistically significant.

and achieved a clearer picture of the mechanisms driving the connection between publicness and performance - on the other hand I would not have had the advantage of doing comparison between three cases. Finally, I chose to look at organizational publicness, formally defined, and thus I did not look at informal characteristics of the organizations, except for the goal, which are to some extent informal. One such characteristic is the culture, which could matter to the relationship between the ownership structure and the performance.

With these limitations in mind, I can now move on to the final conclusions.

Chapter 7. Conclusions

The overall research question for the thesis is:

> *How does organizational publicness matter to the performance of microfinance institutions with respect to the social goal of making microfinance work for the poor and to the financial goal of reaching sustainability?*

Organizational publicness was defined as the degree to which an organization is public, measured on a private-public continuum. The conclusion is that organizational publicness does in fact affect the performance of microfinance institutions - but not in the way theory would expect it to. Having a low degree of publicness, for example, is neither good for financial nor for social performance. Private is not necessarily better. The most successful institutions, on the other hand, are those that manage to get the benefits of publicness while avoiding the threats affiliated with political authority.

This conclusion was reached by dividing the research question into three sub-questions, focusing on description, explanation and understanding:

1. *Description: Does organizational publicness matter to the performance of microfinance institutions?*
2. *Explanation: If yes, how does publicness affect the performance of microfinance institutions?*
3. *Understanding: What are the causal mechanisms driving the connection between publicness and performance?*

To answer these questions, I employed a combination of quantitative and qualitative methods, the weight being on the latter due to the qualitative nature of sub-questions 2 and 3. A necessary step was to define publicness as a theoretical concept and to argue for the use of organizations as a unit of analysis (section 4.1 and 4.2). The basis for my definition of publicness was the concept of political authority, and with that as a starting point I derived three principles for publicness, which were specifically adapted to microfinance. Rational choice theory predicted that institutions with a low degree of publicness would have a more efficient internal governance and thus high financial performance, but on the other hand a low social performance, compared to microfinance institutions with a high degree of publicness. An Analysis of Variance on data from 301 microfinance

institutions from all over the world showed that this was not the case: Institutions with a low degree of publicness did not have a higher financial performance than their more public counterparts. However, they did have a lower social performance. This answered sub-question one and two: Organizational publicness matters to performance, but only with respect to the social aspect of performance. Financially, more public microfinance institutions perform just as well as the less public ones. Being more public should, according to the rational choice theory, affect financial performance negatively, but it did not.

Following the counter-intuitive results from the quantitative analysis I had three options: I could reject the theory, reject the data or change the theory. A qualitative analysis in the form of a structured comparison of three microfinance institutions in Benin in West Africa made it possible to determine the validity of the data vis-a-vis the theory. The comparison of institutions that were similar but varied on the independent variable, publicness, enabled me to look at the consequences and mechanisms relating to this specific variable.

The qualitative analysis pointed to the fact that the quantitative results did not tell the whole story about how performance in microfinance institutions works. In fact, the quantitative data and the rational choice theory can be correct at the same time. One finding supporting this was that some of the negative consequences of publicness predicted by theory were actually found, for example unclear ownership structure, political influence and difficulties in obtaining commercial funding. The key issue here was that this did not lead to inferior financial performance, because it was possible for some institutions to resist these negative influences. Resisting the threats resulting from publicness was possible for the non-profit MFI, but not for the member based MFI, who suffered from inefficient governance. The non-profit MFI had governance structures that could resist and counter the threats of for example political influence and unclear ownership structure. Doing this successfully left the non-profit MFI with a number of advantages, for example tax exemption, access to donor funding and technical assistance. Thus, microfinance institutions with a higher degree of publicness need to manage these threats, and in many cases - indeed in most cases, according to the quantitative data - they do this so that it does not affect performance. There can be downsides to publicness and good financial performance at the same time.

Another explanation of the misfit between the theoretical predictions and the quantitative data was the effect of the legal framework. Regulatory issues created disadvantages for the commercial MFI by taxing it 10%, prohibiting savings, and making registration difficult, whereas none of these issues mattered to the more public MFIs. Together, these factors gave the commercial MFI serious

disadvantages. It could be correct that the internal governance of the commercial MFIs was good, but that environmental constraints prevented the performance to show up in the financial results.

Importantly, there was a clear connection between publicness and social performance. The results from the quantitative analysis supported this and were statistically significant. This conclusion was confirmed in the qualitative analysis, which also gave insight into how this connection works. Thus, the sources of political authority, for example the donors working with the non-profit MFI and the members of the member based MFI, were pushing the institutions to serve poorer and more rural clients. The member based institution had the improvement of living standards as an explicit goal, while at the same time acknowledging that its social goal made it less financially sustainable. The preservation of this goal was probably due to the political authority of the members. Likewise, the donors who worked with the non-profit MFI made the institution start programs aimed specifically at helping the very poor manage their loans - *Credit with Education* was an example of this.

Methodologically, the combination of quantitative and qualitative methods was useful for several reasons. The quantitative results made generalizable conclusions possible, but from the case studies it became clear that the conceptual validity in quantitative research is a problem. Thus, the connection between the theory and the data could only be established with help from the case studies' capacity to identify the connection between publicness and performance in context.

Taken as a whole, the conclusion is that publicness, which is defined as influence of political authority, is a central part of the implementation of microfinance. Microfinance institutions are neither fully isolated organizations operating in a market, nor are they agents of a publicly controlled hierarchy. Instead, they operate between hierarchy and market, and this - contrary to what is often argued - is an advantage to the institutions and helps them achieve "the microfinance promise" (Morduch 1999): Reaching financial sustainability and reducing poverty and the same time. The interactions with more public actors like donors, governments and international financial institutions give the microfinance institutions a stronger social and financial performance provided that they can manage to avoid the threats and get the benefits of the political authority.

Microfinance was established as an alternative to government financed credit institutions with a very high degree of publicness. Through the last 30 years the development has been toward more and more commercialization - minimizing the degree of publicness in microfinance. The results in

this thesis suggest that if the goal for microfinance is to make poverty reduction through financially sustainable institutions, then publicness is - and should be - at the center of these efforts. There is a need to acknowledge the positive contributions publicness can make in microfinance.

7.1 Implications for policy

These conclusions have consequences for policy on several levels. On the level of MFIs, the results are relevant to the ongoing debate on the merits or perils of microfinance commercialization, which here can be understood as a move toward a lower degree of publicness. The conclusions point to the fact that organizational structure does indeed matter, and that commercialization understood as organizational transformation should be pursued with care. Overall, commercial MFIs have a weaker social performance than non-commercial ones. Financial performance did not vary across types. However, this does not mean that there is one best model of microfinance that suits all needs, or that there necessarily is a causal link between commercialization and poor social performance. The local context, for example the regulatory environment, turned out to be of great importance. But, it does mean that a transformation should be accompanied by monitoring of and paying attention to social performance.

On the other hand, the case analyses pointed to some internal advantages of being a commercial entity, for example the advantage of a clear and effective ownership structure. And there are disadvantages in being a more public organizations, for example political pressure, poor governance and problems with accessing commercial capital. Whether or not these disadvantages make commercialization a good idea is a matter of context and timing: Context because the legal framework can make life difficult for commercial MFIs and lead to political pressure for non-profit MFIs; and timing because commercialization is probably not a good option for young MFIs, especially not if commercialization means a strict opposition to donor funding. No matter which model of microfinance is chosen, attending to the mechanisms of publicness is an important aspect of successful microfinance implementation and management.

The conclusions have consequences for donors, too. Many donors have argued against subsidies as a matter of principle[115] The above results point to the fact that MFIs can be subsidized and still have a good financial performance. Furthermore, donor influence leads to better social performance. Thus, the discussion should move away from the present focus, as referred in section

[115] Microfinance can pay for itself,and must do so if it is to reach very large numbers of poor people (fourth key principle of microfinance, see CGAP 2006: 1).

2.2, on whether or not to subsidize – and should instead concentrate on how donor subsidization can be done most effectively. Recent research has suggested that a broader concept of efficiency should guide donor support, instead of a more narrow focus, like the one used in the quantitative analysis (Balkenhol 2007). The above analyses certainly support these ideas. One question for further discussion by practitioners is this: How should donors structure their own political authority toward the MFIs in order to contribute to the dual goals of social and financial performance? More specifically, donors can contribute by minimizing the negative effects of donor funding. Multiple reporting criteria can be overcome through partnerships with other donors and alignment of reporting standards, and sustainability and social performance can be promoted by using transparent finance mechanisms. Furthermore, donors can assist MFIs in dealing with governments and advocating necessary changes in regulation.

7.2 Implications for further research

The conclusions have consequences specifically for microfinance research, but there are also lessons to be learned more generally for research on public organizations. First, I will address the consequences for research in microfinance.

Regarding microfinance research, the introduction of public administration theory complements other bodies of research on microfinance, which has used either economic theory or anthropology (Robinson 2001a; Robinson 2001b; Armendariz de Aghion and Morduch 2005). Looking at how microfinance institutions are influenced by political authority thus provides a new perspective on microfinance. While I have answered some questions, new ones have appeared and *the politics of microfinance*, as this perspective can be labeled, should get more attention in the future. Here I suggest a few perspectives:

I look at one inter-organizational variable, publicness, but it is clear that inter-country variables are relevant too. This is likely to be the case especially for more public microfinance institution, because they are affected by the political realm to a greater extent. One way to move forward would be to do a comparison between similar institutions in different countries.

I found that political influence was a problem to some institutions. But how can direct political influence be managed and how widespread is this phenomenon? Cases could be BRAC or the Grameen Bank in Bangladesh, where political influence should be likely.

With regard to the non-profit MFI, decentralized management turned out to be very important. How widespread is decentralized management in microfinance, and how is this best implemented?

Second, I will comment briefly on the broader theoretical questions related to public administration. Here, the research agenda on public organizations should be revived. The research on market approaches in public administration should acknowledge that organizations that are more public formally speaking, are different from less public ones and efforts should be taken to understand this difference. Publicness as a concept could be used in other areas, where there is a need to single out the effect of public involvement, for example in the case of public-private partnerships.

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The responsibility for the work and any errors is solely mine.

This version of Models of Microfinance does not contain appendix 4 to 7, a total of 130 pages.

Appendices

Appendix 1. Abbreviations

CAPAF	A subsidiary of CGAP based in Dhakar in Senegal. CAPAF stands for "Programme de renforcement des capacités des institutions de microfinance en Afrique francophone."
CGAP	Consultative Group to Assist the Poor. A consortium of public and private donors, which support microfinance around the world. Based at the World Bank in Washington, D.C.
COMFI	This name is used as a substitute for the real name of the commercial MFI used in the case study. This is after request from the commercial MFI.
FECECAM	A microfinance institution in Benin. FECECAM is the member based MFI used in the case study.
MFI	Microfinance institution. An organizations which provides financial services targeted toward poorer segments of a population.
NGO	Non-governmental organization. This is a very broad category of organization, which do not represent governments, but nevertheless can be financed by governments. Oxfam and Amnesty International are examples of such organizations.
PADME	A microfinance institution in Benin. PADME is the non-profit MFI used in the case study. Abbreviation stands for "The Association for promotion and support for development of microenterprises" or "L'Association pour la Promotion et l'Appui au Développement de Micro-Entreprises" in French.
PARMEC law	The law regulating the microfinance sector in UEMOA (Union Économique et Monétaire Ouest Africaine, i.e. "West African Economic and Monetary Union.") Members are Benin, Burkina Faso, Côte d'Ivoir, Guinea-Bissau, Mali, Niger, Sénégal and Togo.

Exchange rates used

655.5 FCFA = 1 EUR

Appendix 2. Data for hits analysis

The basis for the search is the Lexis-Nexis Catalogue *Major World Publications*, which contains 226 major news publications from around the world, see info below. However, many of these publications have not been included in the catalogue until the end of the 1990's, so using the entire catalogue would give a skewed result. To overcome this, I have selected four worldwide and well known publications, which all go back to at least 1984. They are all English language-publications, and are published in developed countries, which makes them somewhat unrepresentative of the world population and the world debate. However, as I track a tendency only, I take this to be of minor importance.

The publications are:

BBC Worldwide Monitoring: International Reports
COVERAGE: From 01 January 1979 to current

Financial Times (London)
COVERAGE: From January 02, 1982 through current

The Guardian (London)
COVERAGE: From July 14, 1984 through current

The New York Times
COVERAGE: From June 01, 1980 through current; the Final New York City Edition.

All searches are from Jan 1. to Jan 1. the following year, both dates inclusive, except 2006, which is divided into two periods: Until October 12 and after October 12. This is done to track the effect of the Nobel Peace Prize, which was announced on October 13 2006. Numbers are calculated as average hits per day.

The search string used was "microfinance OR microcredit OR micro credit OR micro finance."

Details on Major World Publications

From LexisNexis, Oct 2006.

COVERAGE: Varies by source, please see individual source records.

FREQUENCY: Varies by source, see individual source descriptions.

UPDATE-SCHEDULE: Updated regularly - Atypical update schedule/as received from the publisher

CONTENT-SUMMARY:

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(i.e. photographs, classifieds, etc...) may not be available.

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COMPLETE FILE:
Accountancy Age

Accounting Today
The Advertiser/Sunday Mail (South Australia)
Advertising Age
ADWEEK
Africa News
The Age Abstracts (Melbourne, Australia)
Airline Business
Audio Week
The Australian
The Australian Financial Review Abstracts
Automotive News
Automotive News Europe
Aviation Week & Space Technology
Baltic News Service
The Banker
BBC Worldwide Monitoring: International Reports
Belfast News Letter
Belfast Telegraph
Billboard
Biotech Business Week
Birmingham Evening Mail
Birmingham Post
The Boston Globe
Brand Strategy
Brisbane News
Bristol Evening Post
BRW Abstracts (Australia)
Builder
The Business
Business Day (South Africa)
Business & Finance Magazine
The Business Times Singapore
Business Week
BusinessWorld
Campaign
The Canberra Times
Central Office Of Information (Hermes Database)
CFO
Chemical Week
Chicago Tribune
The Christian Science Monitor
CMP Information
Compliance Monitor
Computer Weekly
Computing
Contract Journal
Control and Instrumentation
Corporate IT Update
Corporate Money
The Courier Mail/The Sunday Mail (Australia)
Creative Review
The Daily Deal
The Daily Mail and Mail on Sunday (London)
Daily News (New York)
Daily Record & Sunday Mail
The Daily/Sunday Telegraph (London)
Daily Telegraph and Sunday Telegraph (Sydney, Australia)
Daily Variety

The Daily Yomiuri (Tokyo)
The Dallas Morning News
Defense Daily
Defense Daily International
Design Engineering
Design Week
Detroit Free Press
The Dominion Post (Wellington, New Zealand)
The Dominion (Wellington)
Drug Week
The Economist
The Edge Malaysia
The Edge Singapore
Electricity Journal
Electronics Weekly
The Engineer
Entertainment Weekly
EQ
Estates Gazette
Euromoney Institutional Investor
The Evening Post (Wellington)
The Evening Standard (London)
EXE
The Express
Farmers Weekly
Financial Adviser
Financial Director
Financial Mail (South Africa)
Financial Post Investing
Financial Times (London)
Het Financieele Dagblad (English)
Flight International
Forbes
Fortune
The Gazette (Montreal)
The Globe and Mail (Canada)
The Grocer
The Guardian (London)
Harvard Business Review
The Herald (Glasgow)
Herald Sun/Sunday Herald Sun (Melbourne, Australia)
The Independent and Independent on Sunday (London)
The Industry Standard
Industry Week
Informa Finance & Insurance
Informa Media
Informa Telecoms
Information World Review
InformationWeek
International Herald Tribune
International Money Marketing
Internet Business News
The Investors Chronicle
The Irish Times
The Japan Times
The Jerusalem Post
The Jerusalem Report
Korea Herald

Korea Times
Lafferty Newsletters
The Lancet
The Lawyer
Lawyers Weekly
Legal Week
Lloyd's List
Los Angeles Times
Mainichi Daily News
Management Consultancy
Management Today
Marketing
Marketing Week
Media Week
The Mercury/Sunday Tasmanian (Australia)
Mergers and Acquisitions Journal
Metalworking Production
Miami Herald
Middle East Economic Digest
Middle East Newsfile (Moneyclips)
Mining Magazine
The Mirror (The Daily Mirror and The Sunday Mirror)
Mobile Communications Report
Mobile Matters
Modern Power Systems
Money
Money Marketing
Moscow News
The Moscow Times
MTI Econews
Music Week
The Nation (Thailand)
National Post (f/k/a The Financial Post)
Natural Gas Week
Network Computing
Network News
Network Solutions
New Media Age
New Musical Express
New Scientist
New Straits Times (Malaysia)
From January 01, 1995 through current
The New York Times
The New Yorker
The New Zealand Herald
New Zealand Infotech Weekly (Wellington)
The News of the World
Newsday (New York, NY)
Newsweek
The Nikkei Weekly (Japan)
Nordic Business Report
The Northern Echo
Nuclear Engineering International
The Observer

Off Licence News
Oil & Gas Journal

Ottawa Citizen
Packaging
The People
Petroleum Economist
Pharma Marketletter
The Philadelphia Inquirer
The Philadelphia Inquirer - Most Recent Two Weeks
Plastics News (tm)
Platts Energy Business & Technology
Polish News Bulletin
Post Magazine
Power Economics
PR Week
PR Week (US)
The Prague Post
Precision Marketing
The Press (Christchurch, New Zealand)
Process Engineering
The Progressive Grocer
Reinsurance Magazine
Retail Week
Revolution
Rubber & Plastics News
Satellite Week
The Scotsman & Scotland on Sunday
South China Morning Post
St. Petersburg Times
The Straits Times (Singapore)
The Sun
The Sunday Express
Sunday Herald
The Sydney Morning Herald Abstracts (Australia)
TechNews
Time
The Times and Sunday Times (London)
The Toronto Star
Travel Trade Gazette UK & Ireland
USA Today
Utility Europe
Utility Week
VARBusiness
Variety
Wall Street Journal Abstracts
The Washington Post
Waste News
The Weekly Times
What's new in Industry
WorldSources, Inc, Emerging Markets Datafile
Worldwide Computer Product News

SELECTED DOCUMENTS:
ABIX - Australasian Business Intelligence
Global News Wire
COVERAGE: From 01 October 1998 to current; Individual sources vary
Xtreme Information

Appendix 3. List of persons interviewed

Institution	Title	Person	Location	Date (2006)
Cellule de Microfinance	Director	Zaharie A. Yometowu	Cotonou, Benin	Aug 8
Consortium Alafia	Director	Dovi C. Ignace	Cotonou, Benin	Aug 10
Member based MFI: FECECAM	Department Director	Léonard M. Madou,	Cotonou, Benin	Aug 17
Non-profit MFI: PADME	Director	Rene Azokli, PADME	Cotonou, Benin	Aug 24
Consortium Alafia	Director	Dovi C. Ignace	Cotonou, Benin	Aug 28
Consortium Alafia	Manager of training	Sylvestre Fonton Honvou	Cotonou, Benin	Aug 28
Non-profit MFI: PADME	Financial Manager	Andre Hachoffa	Cotonou, Benin	Sep 1
CARE International	Program Officer	Madinatou Ahounou	Cotonou, Benin	Sep 5
USAID	Program Officer	Ruben Johnson	Cotonou, Benin	Sep 5
Commercial MFI	Director	Anonymous after request from the MFI	Cotonou, Benin	Sep 7
Non-profit MFI: PADME	Branch Manager	Narcisse Adétonan	Bohicon, Benin	Sep 14

Background interviews				
CARE International	Director	Yoro N'Diaye	Cotonou, Benin	Sep 18

SIOM Consulting	Director	Hermann Messan	Cotonou, Benin	Sep 21
Danish Embassy, Cotonou	Ambassador	Anders Seerup Rasmussen	Cotonou, Benin	Aug 25
Danish Embassy, Cotonou	*Ambassaderåd*	Esther Lønstrup	Cotonou, Benin	Aug 7
Nordic Consultants	Microfinance specialist	Gounou Abdoulaye	Cotonou, Benin	Aug 2
Danish Ministry of Foreign Affairs	Microfinance specialist	Morten Elkjær	Copenhagen	Jul 29

Appendix 8. Calculations and statistics

This appendix explain the calculations behind the statistics reported in the quantitative analysis.

The 301 institutions in the sample is merely a sample, and thus the conclusion from above relies on out belief that this results is not just accidental. One way to assess this is by displaying the standard deviations, or - even better - the 95% confidence intervals. When I know the sample variances for the variables (s^2), then the 95% confidence interval is determined as :

$$\hat{\mu} \pm 1.96\hat{\sigma}_{\bar{Y}}$$

where $\hat{\sigma}_{\bar{Y}}$ is the standard error of the mean and is defined as

$$\hat{\sigma}_{\bar{Y}} = \frac{s}{\sqrt{n}}$$

following e.g. Agresti and Finlay (1997: 128), as long as the sample is larger than 30, which is the case here. Another assumption is that the sample variances are the unbiased estimates

One problem is that I merge the NGO and the NBFI categories into one non-profit category, and thus I cannot use the original statistics. This is due to the fact that I do not have access to the original data, but to statistics drawn from this data. Therefore, I need to merge the statistics for the NBFI and the NGO categories.[115]

Merging NBFI and NGO into Non-profit

I am interested in the mean and the average in the new non-profit category.

Mean for non-profit

The mean can be calculated as the weighted average of the two individual means:

[115] This is because of confidentiality. Alternative statistics are available from the MixMarket, but only at a cost.

$$\mu_{NP} = \frac{n_{NGO}}{n_{NP}}\mu_{NGO} + \frac{n_{NFBI}}{n_{NP}}\mu_{NFBI}$$
$$= \frac{n_{NGO}\mu_{NGO} + n_{NFBI}\mu_{NFBI}}{n_{NP}}$$

where $n_{NP} = n_{NGO} + n_{NFBI}$.

In the following section I insert the numbers from the relevant variables. All numbers are calculated as precise values, but reported with an appropriate number of decimals.

Financial Self-Sufficiency

$$\mu_{NP} = \frac{n_{NGO}\mu_{NGO} + n_{NFBI}\mu_{NFBI}}{n_{NP}} = \frac{134*1.096+96*1.1053}{230} = 1.100$$

Average Loan Balance:

$$\mu_{NP} = \frac{n_{NGO}\mu_{NGO} + n_{NFBI}\mu_{NFBI}}{n_{NP}} = \frac{134*0.443+96*0.760}{230} = 0.576$$

Average Savings Balance

$$\mu_{NP} = \frac{n_{NGO}\mu_{NGO} + n_{NFBI}\mu_{NFBI}}{n_{NP}} = \frac{134*0.424+96*0.489}{230} = 0.451$$

Unlike the other variables, the average savings balance is not listed as a percentage of GNI. Instead, the average GNI is listed, and these are used in calculating the percentages. With the variance, which is used later, the standard deviation is also divided by the average GNIs to arrive at comparable numbers. This makes these numbers more uncertain.

Variance for non-profit

To arrive at the total variance, I use law of total variance:

$$Var(X) = Var(E(X|Y) + E(Var(X|Y))$$

In this case, Y divides the dataset into groups, and considering only the two groups, the formula says that the total variance is equal to the variance of the means of the groups plus the mean of the variances of the groups (see Kreiner 1999 for a similar point).

Or:

$$\sigma_T^2 = \mu_{\sigma_{1,2}^2} + \sigma_{\mu_{1,2}}^2$$

If the groups were the same size, this could be calculated by defining

$$\mu_{\sigma^2} = \frac{\sum_{i=1}^{k} \sigma_i^2}{k} \text{ and } \sigma_\mu^2 = \frac{\sum_i^k (\mu_i - \mu_T)^2}{k}$$

where k = group number.

However, the groups are not the same size, and thus I need to use weighted average and weighted variance:

$$\mu_{\sigma^2} = \frac{\sum_{i=1}^{k} n_i \sigma_i^2}{n_{NP}} \text{ and } \sigma_\mu^2 = \frac{\sum_i n_i (\mu_i - \mu_T)^2}{n_{NP}}$$

where $n_{NP} = n_{NGO} + n_{NFBI}$

Since I have only two groups, the calculations are not cumbersome.

For Financial Self-Sufficiency:

$$\mu_{\sigma^2} = \frac{\sum_{i=1}^{k} n_i \sigma_i^2}{N} = \frac{n_{NGO}\sigma_{NGO}^2 + n_{NBFI}\sigma_{NBFI}^2}{n_{NP}}$$
$$= \frac{134 * 0.0831 + 96 * 0.114}{134 + 96}$$
$$= 0.101$$

$$\sigma_\mu^2 = \frac{\sum_i n_i (\mu_i - \mu_T)^2}{n_{NP}} = \frac{n_{NGO}(\mu_{NGO} - \mu_{NP})^2 + n_{NBFI}(\mu_{NBFI} - \mu_{NP})^2}{n_{NP}}$$
$$= \frac{134(1.096 - 1.100)^2 + 96(1.105 - 1.100)^2}{230}$$
$$= 0.00002$$

$$\sigma_{\text{NP\_FSS}}^2 = \mu_{\sigma_{1,2}^2} + \sigma_{\mu_{1,2}}^2 = 0.101 + 0.00002 = 0.101$$

The low level of σ_μ^2 is a signal that the between variability does not account for much of the difference, because the two are almost identical.

For Average Loan Balance

$$\mu_{\sigma^2} = \frac{\sum_{i=1}^{k} n_i \sigma_i^2}{N} = \frac{n_{NGO}\sigma_{NGO}^2 + n_{NBFI}\sigma_{NBFI}^2}{n_{NP}}$$
$$= \frac{134 * 0.463 + 96 * 0.624}{134 + 96}$$
$$= 0.530$$

$$\sigma_{\mu}^{2}=\frac{\sum_{i} n_i(\mu_i-\mu_T)^2}{n_{NP}}=\frac{n_{NGO}(\mu_{NGO}-\mu_{NP})^2+n_{NBFI}(\mu_{NBFI}-\mu_{NP})^2}{n_{NP}}$$
$$=\frac{134(0.443-1.100)^2+96(0.760-1.100)^2}{230}$$
$$=0.0245$$

$$\sigma_{\mathrm{NP\_ALB}}^{2}=\mu_{\sigma_{1,2}^{2}}+\sigma_{\mu_{1,2}}^{2}=0.530+0.0245=0.554$$

For Average Savings Balance

$$\mu_{\sigma^2}=\frac{\sum_{i=1}^{k} n_i\sigma_i^2}{N}=\frac{n_{NGO}\sigma_{NGO}^2+n_{NBFI}\sigma_{NBFI}^2}{n_T}$$
$$=\frac{134*1.296+96*1.178}{134+96}$$
$$=1.247$$

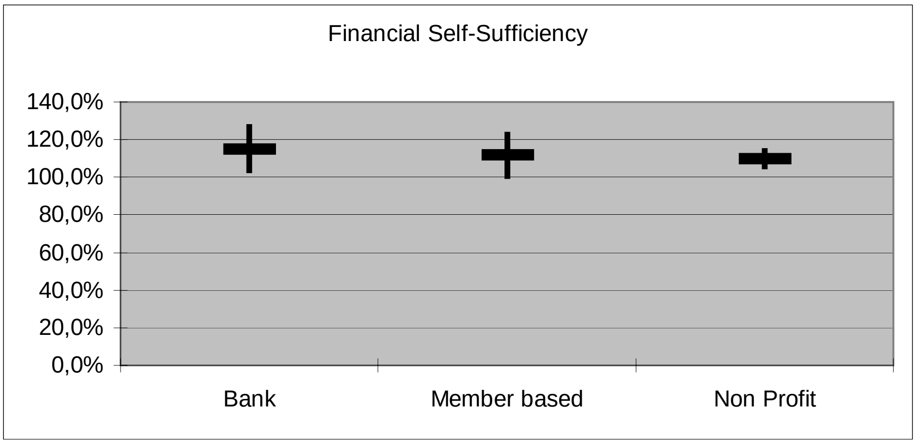
$$\sigma_{\mu}^{2}=\frac{\sum_{i} n_i(\mu_i-\mu_T)^2}{n_{NP}}=\frac{n_{NGO}(\mu_{NGO}-\mu_{NP})^2+n_{NBFI}(\mu_{NBFI}-\mu_{NP})^2}{n_{NP}}$$
$$=\frac{134(0.443-1.100)^2+96(0.760-1.100)^2}{230}$$
$$=0.308$$

Confidence intervals

I can now calculate the 95% confidence intervals.

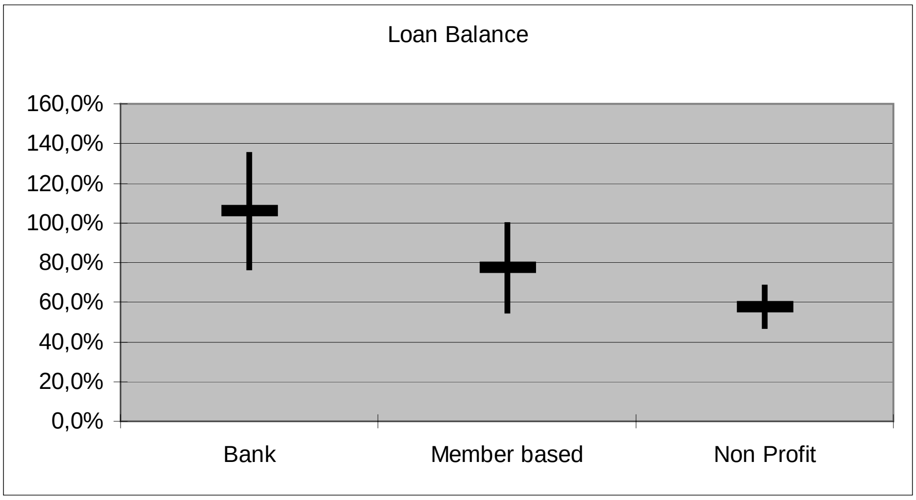
Financial Self-Sufficiency

Financial Self-Sufficiency					
	Mean	Top	Bottom	Std. Dev	Var
Commercial Bank	115.2%	126.5%	103.9%	34.1%	0.1161
Non-profit	110.0%	114.1%	105.9%	31.8%	0.1013
Member Based	111.7%	122.6%	100.8%	29.5%	0.0870



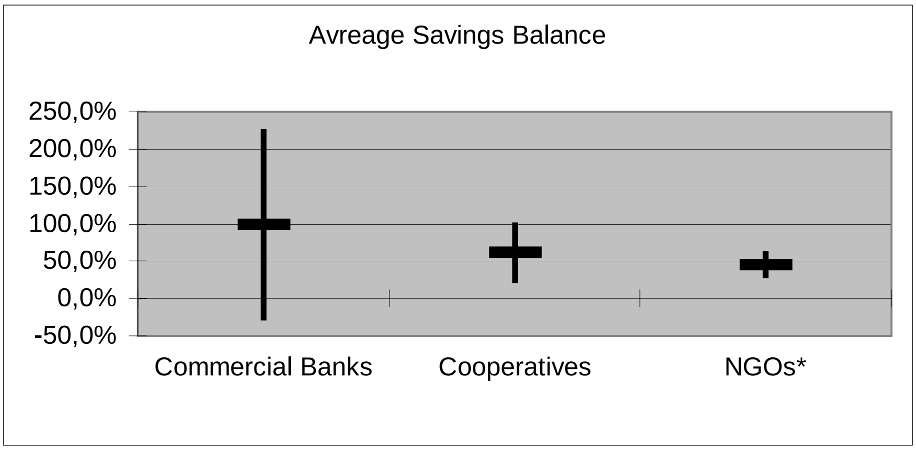
Average Loan Balance

Average Loan Balance					
	Mean	Top	Bottom	Std. Dev	Var
Commercial Bank	106.0%	134.5%	77.5%	85.9%	0.738284
Non-profit	57.6%	69.4%	45.7%	91.5%	0.837729
Member Based	77.5%	99.1%	55.9%	58.4%	0.340518



Average Savings Balance

Average Savings Balance					
	Mean	Top	Bottom	Std. Dev	Var
Commercial Bank	98.98%	223.3%	-25.3%	375.1%	14.07
Non-profit	45.10%	59.5%	30.7%	111.7%	1.25
Member Based	61.48%	98.4%	24.6%	99.6%	0.99



Before moving on with the test of similarity of the means, I need to calculate a couple of other statistics.[116]

Total mean

Because I leave out the rural banks I also need to calculate the total mean for the three categories I use.

For Financial Self-Sufficiency

$$\mu_T = \frac{\sum_{i=1}^{k} n_i \mu_i}{N}$$

$$= \frac{n_{NP}\mu_{NP} + n_{CB}\mu_{CM} + n_{MB}\mu_{MB}}{n_{NP} + n_{CB} + n_{MB}}$$

$$= \frac{230*110.0\% + 35*115.2\% + 28*111.7\%}{230+35+28}$$

$$= 110.8\%$$

[116] This is because I leave out the Rural Banks.

For Average Loan Balance

$$\mu_T = \frac{\sum_{i=1}^{k} n_i \mu_i}{N}$$
$$= \frac{n_{NP}\mu_{NP} + n_{CB}\mu_{CB} + n_{MB}\mu_{MB}}{n_{NP} + n_{CB} + n_{MB}}$$
$$= \frac{230*57.6\% + 35*106.0\% + 28*77.5\%}{230 + 35 + 28}$$
$$= 65.25\%$$

For Average Savings Balance

$$\mu_T = \frac{\sum_{i=1}^{k} n_i \mu_i}{N}$$
$$= \frac{n_{NP}\mu_{NP} + n_{CB}\mu_{CB} + n_{MB}\mu_{MB}}{n_{NP} + n_{CB} + n_{MB}}$$
$$= \frac{230*45.10\% + 35*61.48\% + 28*98.98\%}{230 + 35 + 28}$$
$$= 53.11\%$$

Test of similarity

I can now move on with asking the question: Are these averages equal of different, statistically speaking?

In order to do test this, I look at the probability of the averages actually being the same. Thus my starting hypothesis is

H_0 = Averages across ownership types are the same on the different variables

With number, I label the ownership types CB (commercial banks), MB (member based) and NP (Non-profit). Thus, setting Financial Self-Sufficiency = FSS, Average Loan Balance = ALB and Average Savings Balance=ASB, I have

(1) $H_0^{FSS} = \mu_{CB}^{FSS} = \mu_{MB}^{FSS} = \mu_{NP}^{FSS}$
(2) $H_0^{ALB} = \mu_{CB}^{ALB} = \mu_{MB}^{ALB} = \mu_{NP}^{ALB}$
(3) $H_0^{ASB} = \mu_{CB}^{ASB} = \mu_{MB}^{ASB} = \mu_{NP}^{ASB}$

I test this using the *analysis of variance F statistic* (Agresti and Finlay 1997: 443), which is defined as

$$F = \frac{\text{Between estimate}}{\text{Within estimate}}$$

The property of this statistic is that it tends to overestimate the between estimate when H_0 is false, and then the statistic become larger than 1. From a probability table it is possible to find the probability that the F-values is at least as large as the observed F value. A larger F-value will give a smaller P-value. If the P-value falls below 5%, I reject H_0 and conclude that the averages are different (Agresti and Finlay 1997: 443).

The between estimate is a measure for how much each sample mean differs from the overall mean, whereas the within estimate measures the total variance within each sub-sample in one statistic. The former is calculated as the squared difference between the group average ($\bar{Y}_i$) and the overall average $(\bar{Y})$, weighted by the sample size (n_i), and divided by the degrees of freedom, that is the number of groups (g) minus one. Thus, we arrive at the following formula:

$$\text{Between estimate} = \frac{\sum_i n_i(\bar{Y}_i - \bar{Y})^2}{\text{g - 1}}$$

The numerator is also called the Between Sum of Squares (BSS).

The within estimate is calculated as the weighted average of the variances (s_i) within each sub-sample divided by the degrees of freedom, in this case the total number of observations (N) minus the number of groups (g).

Thus we arrive at:

$$\text{Within estimate} = \frac{\sum_i (n_i - 1)s_i^2}{\text{N - g}}$$

The numerator is also called the Within Sum of Squares (WSS).

In the following, I will calculate the within estimate, the between estimate, the F value and the P value for the three variables.

Financial Self-Sufficiency

$$F = \frac{\text{BSS/(g-1)}}{\text{WSS/(N-g)}} = \frac{0.08/(3-1)}{29.48/(290-3)} = 0.41$$

Using the F-distribution in Excel, I find

P = 0.66

Thus I cannot reject the first H_0^{FSS} and the averages are not statistically significantly different.

Average Loan Balance

$$F = \frac{\text{BSS/(g-1)}}{\text{WSS/(N-g)}} = \frac{132/(3-1)}{161/(290-3)} = 119$$

Using the F-distribution in Excel, I find

P = 0.001

Thus I can reject the second hypothesis, H_0^{ALB} , and the averages are statistically significantly different.

Average Savings Balance

$$F = \frac{\text{BSS/(g-1)}}{\text{WSS/(N-g)}} = \frac{9.03/(3-1)}{791/(290-3)} = 1.66$$

Using the F-distribution in Excel, I find

P = 0.19

Thus I cannot reject the third hypothesis, H_0^{ASB} , and the averages are not statistically significantly different. This result is probably due to the large variability in commercial bank savings, with a standard deviation on 375%.

Appendix 9. Example of quantitative data

The following pages an example of data, I have used in the quantitative analysis and in the calculations in Appendix 8. I include only the averages here, but other statistics like the standard deviations, maximum and minimum were also available. The data can be downloaded from http://www.mixmarket.org/medialibrary/mixmarket/2004_MFI_Benchmarks%5B2%5D.xls

During the research, numbers from 2005 were made available, but these do not report the standard deviations and therefore I use the 2004 data.

Appendix 9. Example of quantitative data

Average	INSTITUTIONAL CHARACTERISTICS					FINANCING STRUCTURE				
PEER GROUP	Number of MFIs	Age	Total Assets	Offices	Personnel	Capital/ Asset Ratio	Commercial Funding Liabilities Ratio	Debt/ Equity Ratio	Deposits to Loans	Deposits to Total Assets
Units:		nb	US$	nb	nb	%	%	x	%	%
Year:	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
All MFIs	302	11	33.577.432	48	387	39,2	55,2	12,2	28,2	18,1
SIMPLE PEER GROUPS										
Age										
New	40	3	6.273.643	11	83	45,7	43,3	68,6	17,9	10,6
Young	111	6	18.644.828	24	164	43,0	41,8	3,8	18,3	12,3
Mature	151	16	51.787.171	76	632	34,7	68,3	3,4	38,1	24,3
Charter Type										
Bank	35	11	151.343.200	157	1.182	25,0	97,3	6,1	79,8	47,0
Credit Union	28	13	45.723.584	40	213	26,1	87,6	10,7	79,1	58,8
NBFI	96	9	20.161.965	21	210	37,8	53,1	2,4	23,2	15,1
NGO	134	10	11.644.301	44	360	47,6	34,2	21,5	2,2	1,7
Rural Bank	8	33	7.124.747	9	121	16,1	142,2	5,9	122,8	60,9
Financial Intermediation										
Non FI	174	9	10.352.536	20	149	49,7	31,9	16,9	0,0	-
Low FI	39	8	22.098.578	103	910	37,7	44,3	3,8	8,8	6,0
High FI	89	15	84.013.467	79	625	19,4	105,6	6,6	91,7	58,7
Methodology										
Individual	104	13	71.279.200	83	573	27,3	75,8	6,9	48,0	33,2
Individual/ Solidarity	132	10	18.239.914	37	368	46,2	50,3	4,2	24,7	13,9
Solidarity	32	8	2.830.566	16	108	43,1	29,3	69,4	3,4	1,9
Village Banking	34	9	6.738.259	16	158	45,0	35,7	5,3	4,0	3,5
Outreach										
Small(Outreach)	146	9	3.764.270	7	46	45,1	47,0	5,5	26,7	16,7
Medium(Outreach)	78	11	13.682.694	17	142	39,0	56,9	4,0	23,9	15,7
Large(Outreach)	78	13	109.276.294	156	1.272	28,5	68,8	32,8	35,2	23,0
Profit Status										
For Profit	101	12	64.952.650	70	585	29,0	82,0	3,0	56,1	32,7
Not for Profit	201	10	17.811.775	37	288	44,3	41,8	16,8	14,1	10,8
Region										
Africa	57	9	17.117.140	30	205	37,8	65,2	2,7	42,7	22,0
Asia	68	13	66.800.681	136	1.080	30,2	67,2	36,2	40,0	23,3
ECA	60	6	6.937.299	11	65	53,8	29,7	10,5	13,7	11,4
LAC	97	13	40.999.458	23	252	32,2	64,1	4,2	26,1	20,0
MENA	20	7	11.453.787	32	174	64,1	19,5	1,3	-	-
Scale										
Small(Scale)	114	9	1.503.925	7	48	44,5	45,3	26,0	22,4	14,2
Medium(Scale)	102	11	7.998.996	15	135	44,0	53,3	2,9	23,1	14,2
Large(Scale)	86	13	106.430.689	141	1.136	26,5	70,6	4,8	41,9	27,9
Sustainability										
FSS	209	11	45.409.024	62	505	35,8	62,2	5,1	34,0	21,9
Non-FSS	93	9	6.988.155	17	123	46,9	39,5	28,0	15,2	9,4
Target Market										
Low end	116	10	19.713.230	55	490	42,9	40,9	21,6	9,7	6,8
Broad	158	11	43.192.344	47	331	38,0	62,3	6,7	36,6	23,1
High end	19	11	41.677.366	32	317	29,6	71,7	4,3	50,7	35,3
Small Business	9	10	26.376.602	16	210	33,6	79,8	3,2	70,3	38,2
COMPOUND PEER GROUPS										
Africa Large FI	12	15	55.270.381	86	562	18,7	118,7	3,2	107,9	58,7
Africa Large Non FI	7	9	25.810.234	27	186	34,4	47,2	2,5	6,2	4,5
Africa Medium FI	8	9	6.908.560	23	142	25,7	100,5	4,3	82,3	43,2
Africa Medium Non FI	10	8	5.186.564	12	133	49,5	34,3	1,6	4,5	3,3
Africa Small	20	7	1.231.331	8	60	49,4	40,8	2,3	19,5	7,0
Asia Large FI	4	23	907.922.169	1.152	7.772	23,0	106,3	7,0	85,7	52,2
Asia Large Non FI	8	14	87.864.071	489	4.390	41,5	27,7	3,0	2,3	1,7
Asia Medium FI	7	20	9.842.472	10	121	22,9	137,0	4,7	126,0	62,2
Asia Medium Non FI	14	12	6.930.295	30	311	33,7	54,3	(8,0)	1,3	1,0
Asia Small FI	13	16	1.220.579	2	30	19,7	117,2	3,5	109,8	68,3
Asia Small Non FI	22	7	1.184.369	10	73	33,6	30,8	111,0	1,5	1,0
ECA High	5	8	5.806.869	6	25	45,5	33,1	1,8	20,4	16,5
ECA Large Broad	13	7	19.033.771	23	134	35,3	37,4	3,2	8,5	5,7
ECA Medium Broad	21	7	5.428.588	11	65	60,4	24,9	11,2	12,7	11,5
ECA Small	21	5	1.226.867	5	32	60,7	28,9	16,3	16,1	13,5
LAC Large FI	23	16	123.569.863	40	587	13,4	95,9	4,9	76,0	57,9
LAC Large Non FI	14	12	51.295.363	52	427	22,5	61,3	10,6	3,1	2,3
LAC Medium FI	8	21	13.724.747	10	134	26,0	72,0	3,6	58,4	45,4
LAC Medium Non FI	22	13	11.087.416	13	118	37,5	56,8	2,5	0,9	0,8
LAC Small Broad	14	12	2.825.255	6	48	40,2	51,9	2,4	18,2	14,2
LAC Small Low	16	11	1.464.425	8	42	56,8	37,5	1,9	-	-
MENA Large	4	8	36.695.300	109	532	65,6	30,8	0,7	-	-
MENA Medium	10	7	6.949.515	16	109	72,9	20,2	0,6	-	-
MENA Small	6	5	2.133.232	10	42	48,3	10,9	2,7	-	-

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Appendix 9. Example of quantitative data

Average	OUTREACH INDICATORS								
PEER GROUP	Gross Loan Portfolio/ Total Assets	Number of Active Borrowers	Percent of Women Borrowers	Number of Loans Outstanding	Gross Loan Portfolio	Average Loan Balance per Borrower	Average Loan Balance per Borrower/ GNI per Capita	Average Outstanding Balance	Average Outstanding Balance/ GNI per Capita
Units:	%	nb	%	nb	US$	US$	%	US$	%
Year:	2004	2004	2004	2004	2004	2004	2004	2004	2004
All MFIs	75,8	62.246	66,3	56.633	21.987.394	813	64,6	814	62,3
SIMPLE PEER GROUPS									
Age									
New	74,5	11.744	62,5	9.776	4.601.617	716	69,9	688	56,6
Young	77,6	28.960	66,5	33.012	14.684.315	909	64,8	905	62,1
Mature	74,8	100.093	67,1	86.223	31.961.387	769	63,1	779	63,9
Charter Type									
Bank	68,5	129.220	42,2	47.393	84.178.187	1.173	106,0	1.205	101,8
Credit Union	77,4	35.523	51,5	32.225	32.195.363	1.601	77,5	1.705	82,3
NBFI	77,3	37.241	63,6	43.010	15.717.164	822	76,0	788	69,3
NGO	77,1	71.640	74,9	76.567	9.270.931	572	44,3	583	45,0
Rural Bank	62,8	11.820	76,8	13.760	4.314.180	437	43,1	409	40,2
Financial Intermediation									
Non FI	79,2	25.320	70,3	28.702	8.712.742	755	47,6	757	47,0
Low FI	71,6	192.231	74,4	205.811	17.456.760	440	79,2	439	78,6
High FI	70,8	77.480	50,7	44.724	49.925.420	1.090	91,4	1.105	86,1
Methodology									
Individual	78,8	82.557	51,0	57.310	44.094.691	1.389	86,2	1.345	80,6
Individual/ Solidarity	74,4	63.786	66,9	67.894	13.656.826	678	67,6	689	65,5
Solidarity	67,3	18.754	80,9	21.999	2.069.192	128	26,9	129	27,7
Village Banking	79,7	35.074	86,7	41.870	5.453.825	224	22,6	231	22,7
Outreach									
Small(Outreach)	75,0	4.068	60,3	4.178	2.815.367	1.084	71,5	1.066	68,1
Medium(Outreach)	77,9	17.221	72,6	17.892	10.780.611	621	61,0	629	57,0
Large(Outreach)	75,1	216.168	71,0	197.784	69.080.280	499	55,3	496	56,0
Profit Status									
For Profit	70,5	75.118	56,5	52.088	38.511.741	768	88,2	752	82,4
Not for Profit	78,4	55.778	70,7	58.870	13.684.116	836	52,8	844	52,4
Region									
Africa	67,6	36.224	60,6	36.567	10.991.202	437	118,9	428	116,4
Asia	71,1	180.887	76,8	156.043	34.578.854	353	40,8	361	42,1
ECA	83,3	5.783	61,2	5.829	5.795.394	1.658	71,4	1.623	70,1
LAC	80,5	36.038	63,6	38.987	32.489.044	895	52,9	860	51,0
MENA	69,5	29.531	73,2	29.640	8.158.585	519	27,5	516	27,4
Scale									
Small(Scale)	73,0	6.020	69,3	5.919	1.090.996	606	43,9	621	44,7
Medium(Scale)	76,4	20.470	68,7	21.352	5.835.280	893	68,9	871	63,7
Large(Scale)	78,8	186.327	59,0	171.263	68.844.430	992	87,0	1.009	84,8
Sustainability									
FSS	78,2	82.237	64,4	73.696	29.663.735	908	70,9	902	68,6
Non-FSS	70,3	17.321	70,4	17.211	4.736.263	600	50,5	612	47,9
Target Market									
Low end	71,7	103.888	81,4	117.363	14.876.601	155	23,7	154	23,6
Broad	78,7	38.593	57,4	19.085	26.340.405	1.058	63,3	1.052	61,6
High end	79,4	28.361	42,2	27.559	31.696.253	2.308	185,0	2.365	188,2
Small Business	69,8	12.316	48,0	12.683	16.721.626	1.850	360,5	1.758	319,1
COMPOUND PEER GROUPS									
Africa Large FI	60,6	101.478	27,6	123.959	31.835.514	549	144,2	666	167,5
Africa Large Non FI	84,7	27.735	67,9	28.616	22.349.191	1.138	215,9	1.179	224,0
Africa Medium FI	62,5	30.160	60,9	31.363	4.162.771	619	170,2	523	145,7
Africa Medium Non FI	74,6	24.026	73,1	24.982	3.848.733	338	100,7	319	93,0
Africa Small	64,4	8.568	69,9	8.547	811.925	100	58,4	101	61,1
Asia Large FI	71,9	848.750	83,7	113.297	413.464.894	414	69,1	367	75,2
Asia Large Non FI	80,5	976.074	86,5	1.191.809	70.985.670	105	19,5	93	18,7
Asia Medium FI	61,5	9.927	59,4	11.924	4.661.856	1.010	92,2	987	90,2
Asia Medium Non FI	75,8	53.708	87,0	58.459	4.939.953	153	35,9	147	35,0
Asia Small FI	65,0	2.631	38,1	2.631	779.611	796	69,7	796	69,7
Asia Small Non FI	71,3	10.961	85,3	11.160	804.083	90	13,2	88	14,1
ECA High	87,8	1.432	30,5	1.442	5.277.689	4.860	197,4	4.774	193,5
ECA Large Broad	86,4	13.449	57,9	13.516	16.383.533	1.553	82,0	1.548	81,8
ECA Medium Broad	80,1	5.798	67,9	5.868	4.154.152	1.542	52,1	1.489	50,4
ECA Small	83,4	2.059	62,4	2.076	1.005.335	1.075	54,1	1.053	53,2
LAC Large FI	77,9	77.108	52,4	81.054	94.808.411	1.352	75,0	1.264	70,3
LAC Large Non FI	87,8	72.320	61,3	85.436	45.697.100	898	55,8	849	53,5
LAC Medium FI	79,0	13.454	56,2	13.515	10.435.992	918	53,3	917	53,3
LAC Medium Non FI	81,4	19.911	67,1	20.186	8.954.973	703	53,9	677	52,4
LAC Small Broad	82,5	3.663	47,4	3.686	2.269.587	1.229	60,7	1.227	60,5
LAC Small Low	75,4	7.046	83,7	7.347	1.175.802	193	9,9	192	9,8
MENA Large	71,3	110.592	73,5	110.592	27.146.192	259	17,6	259	17,6
MENA Medium	76,2	11.648	61,3	11.866	4.868.976	810	36,0	804	35,8
MENA Small	57,0	5.295	90,8	5.295	982.862	207	20,0	207	20,0

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"n/a" denotes results for Peer Groups with less than three observations

Appendix 9. Example of quantitative data

Average				OUTREACH INDICATORS			MACROECONOMIC INDICATORS				OVEI
PEER GROUP	Number of Voluntary Savers	Number of Voluntary Savings Accounts	Voluntary Savings	Average Savings Balance per Saver	Average Savings Account Balance	GNI per Capita	GDP Growth Rate	Deposit Rate	Inflation Rate	Financial Depth	Return on Assets
Units:	nb	nb	US$	US$	US$	US$	%	%	%	%	%
Year:	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
All MFIs	33.657	162.130	18.688.256	989	917	1.526	4,3	5,8	6,3	39,5	0,6
SIMPLE PEER GROUPS											
Age											
New	4.747	3.278	835.445	2.723	1.828	1.348	4,6	7,1	8,0	33,2	(1,1)
Young	8.164	15.839	8.267.025	1.319	1.299	1.600	4,5	5,7	6,0	42,9	0,6
Mature	62.923	319.647	31.118.022	406	565	1.518	4,1	5,6	6,0	38,8	1,0
Charter Type											
Bank	38.737	994.470	115.854.530	1.502	1.233	1.517	3,4	6,5	8,0	38,2	0,9
Credit Union	63.068	79.934	35.538.470	1.575	1.479	2.562	5,1	3,7	4,8	27,9	1,2
NBFI	22.232	21.323	6.520.488	666	722	1.361	3,7	5,0	5,6	40,7	0,5
NGO	34.412	36.986	395.283	618	525	1.460	4,8	6,7	6,6	41,0	0,5
Rural Bank	25.694	25.940	4.462.283	174	173	1.071	4,6	7,1	6,7	52,9	0,7
Financial Intermediation											
Non FI	660	965	12	62	62	1.662	4,8	6,2	6,1	41,7	0,2
Low FI	95.327	105.120	1.637.071	1.459	1.085	721	3,1	4,9	6,8	41,1	(1,4)
High FI	61.412	453.330	61.436.809	796	883	1.613	3,8	5,5	6,4	34,6	2,1
Methodology											
Individual	68.870	431.974	48.626.041	1.860	1.449	2.015	4,0	5,9	6,5	36,6	2,5
Individual/ Solidarity	22.475	18.578	4.730.964	421	527	1.304	4,6	5,7	6,0	40,4	0,1
Solidarity	3.803	3.844	21.792	38	41	994	3,4	6,6	7,0	49,3	(1,6)
Village Banking	4.033	3.899	140.964	243	182	1.390	5,1	5,5	6,2	36,1	(1,5)
Outreach											
Small(Outreach)	3.006	3.256	755.915	1.104	829	1.676	4,6	6,1	7,1	40,2	(0,5)
Medium(Outreach)	12.195	9.913	3.520.660	1.641	1.637	1.482	3,9	5,6	5,6	36,5	0,4
Large(Outreach)	121.732	672.054	67.869.297	376	496	1.288	4,1	5,4	5,5	41,4	2,6
Profit Status											
For Profit	40.906	418.253	42.995.895	769	876	1.191	3,0	5,7	6,9	39,2	0,1
Not for Profit	30.371	34.069	6.472.742	1.278	983	1.694	5,0	5,9	5,9	39,7	0,8
Region											
Africa	56.884	41.561	8.148.254	231	152	375	3,1	6,4	6,9	30,1	(3,0)
Asia	72.246	648.991	45.353.949	186	129	894	5,4	5,1	5,6	52,9	(1,0)
ECA	363	1.069	580.737	4.427	2.933	2.194	7,3	6,5	6,7	27,8	1,8
LAC	20.836	37.891	20.900.606	1.969	1.673	2.159	2,5	5,7	6,5	30,8	2,9
MENA	-	-	-	n/a	n/a	1.879	3,5	5,3	4,5	98,7	0,8
Scale											
Small(Scale)	2.062	1.999	205.819	835	581	1.360	4,4	6,4	7,3	38,5	(2,3)
Medium(Scale)	9.803	10.115	1.341.599	883	805	1.678	4,5	6,1	6,8	41,7	1,3
Large(Scale)	105.402	544.207	64.009.329	1.246	1.340	1.565	3,9	4,8	4,3	38,4	3,5
Sustainability											
FSS	41.213	223.396	26.162.522	1.173	1.092	1.665	4,3	5,5	5,5	38,8	4,8
Non-FSS	16.310	12.571	1.850.624	504	428	1.212	4,2	6,5	8,1	41,3	(9,0)
Target Market											
Low end	43.779	55.320	7.150.460	186	82	1.308	3,6	6,0	6,7	48,0	(1,2)
Broad	22.324	261.795	27.289.242	1.720	1.485	1.780	4,8	5,6	6,1	34,6	1,4
High end	42.157	34.569	20.658.965	1.208	1.280	1.206	4,8	5,6	5,4	35,4	3,7
Small Business	68.194	12.581	12.764.161	264	273	546	5,2	7,6	6,2	25,9	2,5
COMPOUND PEER GROUPS											
Africa Large FI	229.033	261.913	34.311.790	169	189	391	3,5	3,7	3,8	34,1	0,1
Africa Large Non FI	12.314	4.110	1.129.283	365	n/a	484	5,6	4,2	1,6	23,0	4,7
Africa Medium FI	35.391	41.786	3.029.692	559	171	349	4,4	9,5	9,5	10,8	(0,3)
Africa Medium Non FI	7.038	7.308	233.258	65	57	640	3,3	7,1	6,7	32,9	(2,1)
Africa Small	3.492	3.787	120.197	62	67	206	1,3	7,1	9,6	36,4	(9,2)
Asia Large FI	105.630	10.101.854	749.034.152	252	97	768	5,4	5,4	4,8	43,4	4,3
Asia Large Non FI	511.312	511.312	4.207.029	11	11	604	6,6	5,4	4,4	51,3	4,7
Asia Medium FI	23.093	23.289	6.029.852	298	296	1.080	4,6	5,8	6,2	58,1	1,0
Asia Medium Non FI	9.901	12.349	72.670	341	24	646	6,1	4,5	4,8	46,1	(0,1)
Asia Small FI	6.528	6.567	832.403	162	161	1.152	4,3	6,3	6,1	56,1	3,7
Asia Small Non FI	2.039	1.793	10.370	53	49	968	5,6	4,5	6,1	56,1	(7,9)
ECA High	23	26	154.782	n/a	n/a	2.445	6,5	6,6	6,7	26,8	1,6
ECA Large Broad	1.321	4.347	1.651.070	n/a	n/a	1.955	4,0	4,7	2,4	42,2	5,3
ECA Medium Broad	118	147	505.360	6.198	3.920	2.497	7,9	6,6	7,6	26,3	1,3
ECA Small	117	123	94.944	3.806	2.548	1.978	9,1	7,5	8,3	20,6	0,1
LAC Large FI	61.707	96.205	82.179.344	883	1.248	2.272	3,0	4,7	5,8	31,7	2,6
LAC Large Non FI	10.809	15.675	1.312.962	n/a	n/a	2.354	2,6	5,6	5,6	31,1	4,4
LAC Medium FI	24.353	16.469	6.107.904	245	931	2.606	1,3	6,0	6,5	31,7	3,4
LAC Medium Non FI	7.167	7.167	127.190	n/a	n/a	1.932	2,6	5,7	8,1	32,9	3,5
LAC Small Broad	2.131	1.192	517.308	n/a	n/a	1.826	2,2	7,8	7,5	30,2	2,8
LAC Small Low	-	-	-	n/a	n/a	2.207	2,8	5,2	5,5	26,4	1,3
MENA Large	-	-	-	n/a	n/a	1.468	4,9	4,6	3,7	94,7	4,7
MENA Medium	-	-	-	n/a	n/a	2.510	3,1	4,4	3,8	122,9	2,1
MENA Small	-	-	-	n/a	n/a	1.102	3,4	7,2	6,4	61,2	(3,9)

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Appendix 9. Example of quantitative data

Average	Return on Equity	Operational Self-Sufficiency	Financial Self-Sufficiency
	RALL FINANCIAL PERFORMANCE		
PEER GROUP			
Units:	%	%	%
Year:	2004	2004	2004
All MFIs	39,4	123,6	110,6
SIMPLE PEER GROUPS			
Age			
New	(47,1)	117	101
Young	113,6	125	110
Mature	7,7	124	114
Charter Type			
Bank	(3,6)	132	115
Credit Union	25,2	122	112
NBFI	51,4	122	111
NGO	47,6	123	110
Rural Bank	1,8	123	111
Financial Intermediation			
Non FI	62,2	122	109
Low FI	2,0	119	104
High FI	11,2	129	117
Methodology			
Individual	8,0	130	120
Individual/ Solidarity	4,1	123	107
Solidarity	87,5	117	101
Village Banking	226,9	114	107
Outreach			
Small(Outreach)	0,6	123	107
Medium(Outreach)	100,9	117	109
Large(Outreach)	50,5	131	118
Profit Status			
For Profit	51,8	124	109
Not for Profit	33,1	123	112
Region			
Africa	4,2	117	101
Asia	163,0	123	109
ECA	(1,2)	132	115
LAC	7,4	123	115
MENA	(3,4)	123	105
Scale			
Small(Scale)	50,5	115	101
Medium(Scale)	46,7	124	110
Large(Scale)	16,1	134	124
Sustainability			
FSS	12,2	137	125
Non-FSS	100,5	94	78
Target Market			
Low end	91,3	117	104
Broad	5,3	125	112
High end	19,4	143	131
Small Business	10,5	132	126
COMPOUND PEER GROUPS			
Africa Large FI	53,2	134	111
Africa Large Non FI	11,6	136	132
Africa Medium FI	5,9	111	104
Africa Medium Non FI	(6,1)	114	99
Africa Small	(23,4)	103	84
Asia Large FI	30,1	133	125
Asia Large Non FI	21,1	155	139
Asia Medium FI	6,5	128	111
Asia Medium Non FI	314,9	119	107
Asia Small FI	8,0	156	132
Asia Small Non FI	283,4	91	84
ECA High	14,9	138	121
ECA Large Broad	14,6	139	132
ECA Medium Broad	(3,8)	133	110
ECA Small	(12,1)	124	108
LAC Large FI	(6,9)	124	120
LAC Large Non FI	21,2	126	120
LAC Medium FI	13,6	120	114
LAC Medium Non FI	13,0	128	119
LAC Small Broad	7,0	127	110
LAC Small Low	5,1	111	105
MENA Large	9,2	152	122
MENA Medium	2,8	123	109
MENA Small	(22,0)	104	86

Appendix 9. Example of quantitative data

Average	REVENUES				EXPENSES						
PEER GROUP	Financial Revenue Ratio	Profit Margin	Yield on Gross Portfolio (nominal)	Yield on Gross Portfolio (real)	Total Expense Ratio	Financial Expense Ratio	Loan Loss Provision Expense Ratio	Operating Expense Ratio	Personnel Expense Ratio	Administrative Expense Ratio	Adjustment Expense Ratio
Units:	%	%	%	%	%	%	%	%	%	%	%
Year:	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
All MFIs	30,7	-0,6	38,1	30,2	29,5	7,2	2,1	20,2	11,2	9,0	2,9
SIMPLE PEER GROUPS											
Age											
New	29,4	(9,1)	38,2	28,0	29,8	7,4	2,6	19,9	10,9	9,0	3,6
Young	30,7	2,0	37,8	30,0	29,5	6,7	1,9	21,0	12,1	8,9	3,1
Mature	31,0	(0,3)	38,4	30,8	29,5	7,6	2,2	19,7	10,7	9,0	2,6
Charter Type											
Bank	24,5	2,9	31,3	22,1	23,0	8,0	2,5	12,5	7,2	5,3	3,3
Credit Union	23,8	3,7	29,2	23,2	22,3	7,7	3,3	11,3	6,1	5,2	2,1
NBFI	28,5	2,1	35,5	28,4	27,0	7,0	1,7	18,3	10,3	8,0	2,4
NGO	35,4	(4,3)	43,5	34,8	34,6	7,1	2,0	25,5	14,1	11,4	3,4
Rural Bank	30,7	8,0	42,1	33,1	29,2	6,7	3,8	18,7	9,3	9,4	3,0
Financial Intermediation											
Non FI	33,9	(5,3)	41,5	33,5	33,2	7,2	2,1	23,9	13,5	10,4	3,5
Low FI	27,3	(6,5)	36,2	27,6	28,3	6,4	2,0	19,9	10,7	9,2	3,1
High FI	25,8	11,1	32,4	24,8	23,0	7,7	2,3	13,0	7,0	5,9	1,8
Methodology											
Individual	29,8	12,3	34,5	26,5	26,5	8,9	2,3	15,3	8,2	7,0	1,9
Individual/ Solidarity	29,0	(3,8)	37,1	29,5	28,4	6,0	2,3	20,1	11,5	8,5	3,5
Solidarity	31,4	(29,5)	44,2	35,1	33,0	6,4	2,0	24,6	14,0	10,6	4,4
Village Banking	39,0	(0,9)	47,7	39,2	40,1	7,4	1,2	31,4	16,4	15,0	2,5
Outreach											
Small(Outreach)	31,0	(8,3)	38,7	29,6	30,9	7,8	2,3	20,8	11,7	9,1	3,8
Medium(Outreach)	33,4	2,7	40,4	33,3	32,5	6,9	2,2	23,4	13,0	10,4	2,2
Large(Outreach)	27,4	10,3	34,8	28,1	24,1	6,6	1,8	15,7	8,5	7,2	1,9
Profit Status											
For Profit	26,9	(0,7)	34,6	26,2	26,0	7,6	2,6	15,8	8,6	7,2	3,0
Not for Profit	32,6	(0,6)	39,9	32,2	31,3	7,0	1,9	22,4	12,5	9,8	2,9
Region											
Africa	28,5	(9,1)	39,7	30,9	31,3	5,5	2,5	23,3	12,1	11,2	3,2
Asia	26,9	(12,4)	35,6	28,4	27,5	6,9	2,6	18,0	10,3	7,7	2,9
ECA	33,3	5,3	38,6	30,1	30,3	8,4	1,9	20,1	11,4	8,7	3,9
LAC	34,2	10,4	39,3	31,1	30,6	8,4	2,1	20,1	11,0	9,1	2,0
MENA	24,7	(8,0)	35,5	29,8	23,9	4,0	0,8	19,2	12,4	6,8	3,6
Scale											
Small(Scale)	33,7	(15,1)	43,2	33,6	35,6	8,0	2,4	25,2	14,2	11,0	4,0
Medium(Scale)	31,7	2,3	39,1	30,4	29,7	7,3	2,1	20,3	10,9	9,4	3,0
Large(Scale)	25,5	15,1	30,4	25,3	21,3	6,1	1,9	13,3	7,6	5,7	1,4
Sustainability											
FSS	31,1	17,8	37,3	30,2	25,6	6,8	1,7	17,1	9,6	7,5	1,8
Non-FSS	29,7	(42,2)	40,1	30,1	38,4	8,2	3,2	27,0	14,8	12,1	5,4
Target Market											
Low end	33,1	(12,4)	43,7	35,0	34,0	6,9	2,0	25,1	14,1	11,0	3,2
Broad	29,9	4,8	35,3	27,7	27,7	7,7	2,3	17,7	9,9	7,9	2,9
High end	25,1	17,6	28,6	21,7	20,8	6,8	2,2	11,8	6,0	5,9	1,7
Small Business	25,9	17,0	36,0	27,9	22,3	4,3	1,4	16,6	8,4	8,3	1,5
COMPOUND PEER GROUPS											
Africa Large FI	17,0	3,8	24,0	19,9	16,5	2,5	3,0	11,0	4,9	6,0	2,3
Africa Large Non FI	26,3	18,7	30,6	28,4	21,6	3,9	2,0	15,8	8,2	7,5	0,5
Africa Medium FI	28,7	1,2	40,5	29,0	28,4	5,4	1,4	21,6	10,9	10,7	2,3
Africa Medium Non FI	38,7	(7,0)	51,5	42,3	40,3	6,0	1,7	32,6	16,9	15,7	3,7
Africa Small	31,1	(31,7)	46,1	33,4	40,3	7,7	3,2	29,4	15,9	13,4	4,8
Asia Large FI	24,8	18,5	33,2	27,1	20,0	6,9	0,8	12,2	6,7	5,5	1,3
Asia Large Non FI	25,6	21,2	32,2	26,7	20,5	5,4	1,7	13,4	8,6	4,7	1,8
Asia Medium FI	26,0	4,6	33,7	26,0	24,5	6,8	2,5	15,3	7,8	7,5	2,5
Asia Medium Non FI	27,4	(8,2)	36,6	30,3	26,9	6,7	3,0	17,2	9,6	7,5	3,7
Asia Small FI	25,3	18,2	33,7	26,0	21,5	8,1	3,2	10,1	6,8	3,4	2,7
Asia Small Non FI	28,7	(56,5)	38,3	30,3	36,4	6,8	2,6	26,9	14,9	12,1	3,4
ECA High	26,3	8,0	25,2	17,5	24,2	8,4	3,3	12,5	5,6	6,9	4,0
ECA Large Broad	27,7	21,5	31,8	28,6	21,8	5,6	1,2	15,0	9,5	5,5	1,6
ECA Medium Broad	35,2	1,4	41,3	31,5	32,5	8,9	2,3	21,4	11,7	9,7	4,4
ECA Small	36,5	(1,5)	43,4	32,6	34,9	9,6	1,5	23,8	13,7	10,2	4,8
LAC Large FI	25,6	15,2	30,0	23,5	21,9	7,9	2,2	11,7	6,3	5,4	0,8
LAC Large Non FI	31,2	15,0	33,5	26,5	25,7	8,4	1,9	15,5	9,2	6,2	1,2
LAC Medium FI	33,6	11,8	37,0	29,0	29,5	10,3	1,9	17,3	9,6	7,7	1,6
LAC Medium Non FI	34,1	11,9	39,8	29,6	29,9	8,4	1,9	19,6	9,9	9,7	1,8
LAC Small Broad	39,8	5,8	44,7	34,7	36,8	8,8	3,7	24,3	13,6	10,7	4,3
LAC Small Low	44,7	0,9	53,5	45,6	43,4	7,8	1,1	34,5	18,9	15,6	2,8
MENA Large	22,7	4,2	31,9	27,5	18,0	4,4	0,2	13,4	8,6	4,7	3,1
MENA Medium	23,9	0,5	31,5	26,8	21,8	3,2	0,7	18,0	11,6	6,4	2,3
MENA Small	27,3	(30,5)	44,5	36,2	31,2	5,0	1,2	25,0	16,1	8,8	6,0

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Appendix 9. Example of quantitative data

Average	EFFICIENCY					PRODUCTIVITY					
PEER GROUP	Operating Expense/ Loan Portfolio	Personnel Expense/ Loan Portfolio	Average Salary/ GNI per Capita	Cost per Borrower	Cost per Loan	Borrowers per Staff Member	Loans per Staff Member	Borrowers per Loan Officer	Loans per Loan Officer	Voluntary Savers per Staff Member	Savings Accounts per Staff Member
Units:	%	%	x	US$	US$	nb	nb	nb	nb	nb	nb
Year:	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004
All MFIs	28,9	15,9	7,0	153	155	140	140	271	271	87	86
SIMPLE PEER GROUPS											
Age											
New	29,6	16,1	7,3	173	165	133	123	257	241	54	31
Young	28,7	16,6	7,3	164	164	130	135	261	271	42	39
Mature	28,8	15,4	6,7	139	145	151	148	282	278	133	137
Charter Type											
Bank	19,8	11,2	8,1	178	192	109	116	204	219	163	177
Credit Union	15,9	8,4	5,2	183	206	126	109	324	287	270	237
NBFI	25,9	14,6	8,6	161	154	140	145	280	287	77	76
NGO	35,9	19,6	6,1	136	139	155	152	280	276	21	21
Rural Bank	29,6	14,4	3,6	115	102	93	99	153	176	231	234
Financial Intermediation											
Non FI	33,6	18,7	6,5	163	164	147	147	264	265	2	3
Low FI	28,8	15,6	9,5	88	92	149	155	291	305	83	86
High FI	19,6	10,5	6,8	161	165	124	118	277	269	240	224
Methodology											
Individual	19,6	10,5	6,1	224	214	114	116	238	249	133	139
Individual/ Solidarity	29,0	16,6	7,9	143	151	137	135	269	264	79	67
Solidarity	45,3	24,5	6,2	51	50	173	181	287	301	38	38
Village Banking	41,3	21,6	7,2	71	75	205	196	367	343	30	30
Outreach											
Small(Outreach)	31,4	17,3	5,8	204	198	107	103	208	204	68	73
Medium(Outreach)	31,1	17,4	8,4	120	122	141	142	283	287	67	54
Large(Outreach)	22,0	11,9	7,9	90	102	202	210	378	387	149	148
Profit Status											
For Profit	24,5	13,3	8,4	141	138	134	135	275	277	155	154
Not for Profit	31,1	17,2	6,3	159	163	144	142	270	268	56	52
Region											
Africa	36,6	19,1	16,1	98	105	177	168	368	352	167	139
Asia	29,6	16,2	3,6	50	50	153	154	254	252	128	152
ECA	25,3	14,3	5,4	316	310	85	86	167	168	10	12
LAC	25,8	14,1	5,6	163	159	145	151	310	324	81	90
MENA	30,0	19,8	4,1	123	122	137	138	186	187	-	-
Scale											
Small(Scale)	38,1	21,2	5,6	129	130	126	119	243	232	66	63
Medium(Scale)	28,2	15,2	7,0	179	173	141	141	249	250	66	76
Large(Scale)	17,5	9,8	8,8	154	168	160	168	336	352	139	127
Sustainability											
FSS	22,5	12,6	6,4	150	153	142	143	285	285	96	99
Non-FSS	43,1	23,4	8,4	159	159	137	133	241	239	66	55
Target Market											
Low end	38,4	21,2	5,8	51	50	190	192	343	346	57	59
Broad	23,7	13,2	6,7	197	200	116	114	229	230	100	97
High end	15,2	7,6	10,4	315	330	85	77	254	225	125	138
Small Business	26,4	13,2	19,7	348	333	54	55	130	138	166	105
COMPOUND PEER GROUPS											
Africa Large FI	19,7	8,8	15,8	97	175	175	150	505	504	472	522
Africa Large Non FI	19,3	10,2	21,0	132	167	173	162	390	391	40	14
Africa Medium FI	37,5	19,6	14,6	211	175	209	174	370	295	224	244
Africa Medium Non FI	45,2	23,4	18,0	97	96	168	177	284	306	36	36
Africa Small	48,1	26,1	14,3	41	36	171	170	318	316	72	79
Asia Large FI	16,5	9,4	5,6	78	89	116	130	177	197	168	573
Asia Large Non FI	17,6	11,4	3,9	17	16	229	291	338	426	72	72
Asia Medium FI	27,8	13,8	3,9	139	130	74	82	143	166	215	216
Asia Medium Non FI	24,5	13,9	4,6	30	29	196	207	288	305	32	40
Asia Small FI	13,4	8,9	1,8	59	57	73	71	153	153	255	256
Asia Small Non FI	49,8	25,6	3,4	35	36	178	150	309	258	46	40
ECA High	14,3	6,4	5,2	716	701	42	42	94	95	2	2
ECA Large Broad	17,8	11,2	9,0	245	245	123	124	231	232	15	21
ECA Medium Broad	28,0	15,4	4,5	298	291	90	91	164	168	5	7
ECA Small	30,0	17,2	4,0	284	277	68	68	146	147	13	13
LAC Large FI	15,3	8,2	6,2	209	202	140	151	322	345	173	149
LAC Large Non FI	17,9	10,6	5,8	152	145	168	188	368	409	21	30
LAC Medium FI	24,2	13,6	5,1	180	179	141	136	289	290	175	197
LAC Medium Non FI	24,0	12,1	6,3	135	132	163	165	312	318	58	58
LAC Small Broad	29,8	16,8	6,0	218	215	82	82	236	236	96	48
LAC Small Low	47,4	26,0	3,5	87	87	165	169	314	320	-	-
MENA Large	19,1	12,5	4,3	48	48	222	222	265	265	-	-
MENA Medium	24,7	16,1	3,6	169	167	106	109	159	163	-	-
MENA Small	46,2	30,9	4,7	96	96	130	130	177	177	-	-

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"n/a" denotes results for Peer Groups with less than three observations

Appendix 9. Example of quantitative data

Average	RISK AND LIQUIDITY						
PEER GROUP	Personnel Allocation Ratio	Portfolio at Risk > 30 Days	Portfolio at Risk > 90 Days	Write-off Ratio	Loan Loss Rate	Risk Coverage	Non-earning Liquid Assets as % Total Assets
Units:	%	%	%	%	%	x	%
Year:	2004	2004	2004	2004	2004	2004	2004
All MFIs	55,8	3,9	2,0	3,4	3,0	2,3	10,6
SIMPLE PEER GROUPS							
Age							
New	53,6	3,2	2,2	2,3	2,2	1,9	9,7
Young	54,5	3,3	1,7	2,3	1,9	3,1	11,2
Mature	57,4	4,4	2,1	4,5	4,1	1,8	10,5
Charter Type							
Bank	58,9	5,7	2,4	2,4	2,1	2,0	14,8
Credit Union	49,7	5,7	3,3	3,7	3,5	0,7	9,0
NBFI	54,0	3,5	1,6	2,7	2,3	3,0	11,2
NGO	57,2	2,9	1,6	4,1	3,6	2,2	8,9
Rural Bank	65,0	6,6	4,6	3,9	3,7	1,1	16,8
Financial Intermediation							
Non FI	56,7	3,2	1,7	3,7	3,2	2,8	8,2
Low FI	55,6	2,9	1,7	3,2	2,9	2,6	13,6
High FI	54,4	5,6	2,7	2,9	2,6	1,2	14,0
Methodology							
Individual	53,2	4,2	2,0	2,4	2,1	1,7	11,0
Individual/ Solidarity	56,2	4,5	2,3	3,5	3,0	2,0	9,3
Solidarity	61,7	2,6	2,0	8,0	7,7	1,7	17,5
Village Banking	57,1	1,4	0,7	1,7	1,3	5,8	8,4
Outreach							
Small(Outreach)	55,5	4,4	2,1	4,0	3,5	2,1	13,0
Medium(Outreach)	53,1	4,2	2,3	3,0	2,7	1,8	9,8
Large(Outreach)	59,4	2,6	1,4	2,6	2,4	3,0	7,0
Profit Status							
For Profit	55,1	5,0	2,3	3,4	3,1	2,2	13,9
Not for Profit	56,2	3,3	1,8	3,4	3,0	2,3	9,0
Region							
Africa	54,0	4,6	2,1	3,6	3,4	1,2	15,5
Asia	64,9	5,4	2,8	5,6	5,4	3,0	13,3
ECA	53,3	2,0	1,0	1,2	0,9	3,6	7,1
LAC	49,0	3,6	1,8	3,4	2,9	1,8	8,0
MENA	71,6	3,8	2,2	1,5	0,6	1,0	11,5
Scale							
Small(Scale)	55,1	4,4	2,3	4,6	4,1	1,9	14,1
Medium(Scale)	58,2	4,1	1,9	2,6	2,2	2,0	9,4
Large(Scale)	54,0	2,9	1,6	2,7	2,4	3,0	7,5
Sustainability							
FSS	55,7	3,2	1,5	2,1	1,8	2,7	10,0
Non-FSS	56,3	5,4	3,1	6,3	5,7	1,3	12,1
Target Market							
Low end	59,1	3,1	1,8	5,1	4,6	2,6	11,8
Broad	54,7	4,5	2,2	2,4	2,1	2,1	10,0
High end	46,6	4,0	1,8	1,6	1,2	1,6	9,2
Small Business	53,6	3,4	1,2	2,5	2,3	2,1	10,7
COMPOUND PEER GROUPS							
Africa Large FI	48,9	7,0	3,8	6,0	5,8	0,5	12,9
Africa Large Non FI	48,2	3,3	1,6	1,2	1,2	1,6	5,0
Africa Medium FI	56,5	5,2	1,8	1,7	1,6	1,0	11,9
Africa Medium Non FI	57,4	2,2	1,2	2,5	2,3	1,6	12,1
Africa Small	56,3	4,4	1,9	4,3	4,0	1,2	23,8
Asia Large FI	63,1	2,5	1,3	1,6	1,2	1,4	5,6
Asia Large Non FI	69,0	1,7	1,2	2,5	2,4	10,3	6,0
Asia Medium FI	61,4	6,8	3,9	1,8	1,7	1,2	17,3
Asia Medium Non FI	73,3	3,6	1,8	3,5	3,2	3,8	6,1
Asia Small FI	64,5	10,2	4,3	2,4	2,3	1,4	33,1
Asia Small Non FI	59,7	5,0	3,1	12,0	11,7	1,3	9,1
ECA High	49,7	2,7	0,3	0,8	0,4	2,5	5,7
ECA Large Broad	55,0	0,8	0,3	0,8	0,6	5,3	5,1
ECA Medium Broad	55,9	3,1	1,8	1,6	1,4	2,5	8,6
ECA Small	50,4	1,5	0,8	1,2	0,9	4,0	7,1
LAC Large FI	48,5	3,7	2,1	3,3	2,7	1,6	10,4
LAC Large Non FI	49,5	1,4	0,8	2,0	1,8	2,5	3,9
LAC Medium FI	47,8	5,9	1,9	2,7	2,3	1,6	7,3
LAC Medium Non FI	52,1	3,9	1,6	4,2	3,9	2,0	7,5
LAC Small Broad	40,3	5,7	3,3	4,3	3,9	0,9	6,1
LAC Small Low	53,1	2,1	1,4	3,5	2,0	2,3	10,6
MENA Large	80,1	0,2	0,1	2,2	2,2	0,8	5,1
MENA Medium	67,2	4,9	3,0	1,7	0,4	1,2	12,3
MENA Small	73,4	4,3	2,2	0,6	0,0	0,4	14,5

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